BUSINESS WEEK

November 4, 1961

Fifty cents

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Khrushchev's Russia [part II]

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Below: Standard of California's veteran Chmn. R. Gwin Follis and new Pres. Otto N. Miller: Teaming up for growth nationwide [Marketing]

BW

In BUSINESS this WEEK

November 4, 1961

General business

The departments

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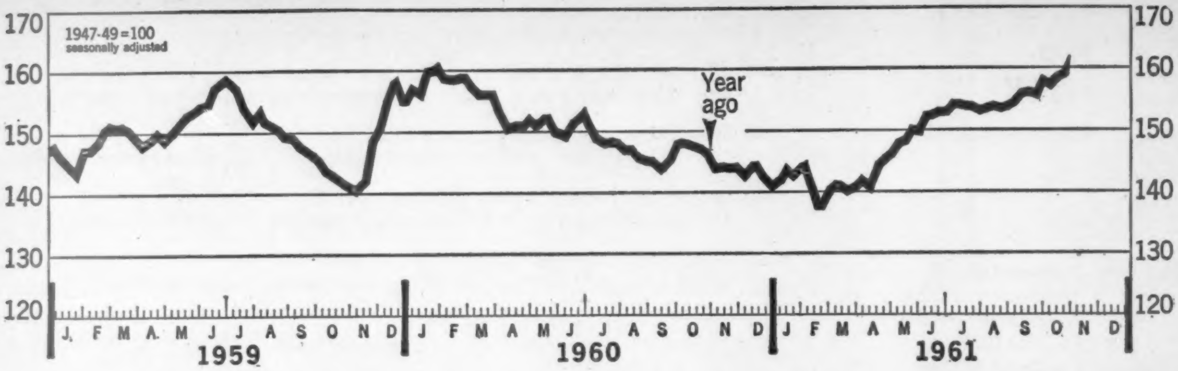
NUMBER 1679

Figures of the week



	1953-55 average	Year ago	Month ago	Week ago	§ Latest Week
BUSINESS WEEK index chart	133.3	146.7	158.8	159.7r	161.7*
Production					
Steel ingot [thous. of tons]	2,032	1,545	2,131	2,042r	2,057
Automobiles	125,553	150,019	114,551	143,150r	161,278
Engineering const. awards [Eng. News-Rec. 4-wk. daily av. in thous.]	$52,412	$65,256	$75,842	$77,877	$81,066
Electric power [millions of kilowatt-hours]	10,819	14,271	15,340	15,162	15,263
Crude oil and condensate [daily av., thous. of bbl.]	6,536	6,821	7,156	7,118	7,128
Bituminous coal [daily av., thous. of tons]	1,455	1,451	1,443	1,475r	1,424
Paperboard [tons]	247,488	318,032	349,991	355,206	356,111
Trade					
Carloadings: miscellaneous and l.c.l. [daily av., thous. of cars]	70	60	56	60	61
Carloadings: all others [daily av., thous. of cars]	47	46	45	47	47
Department store sales index [1947-49=100, not seasonally adjusted]	121	157	154	156	163
Business failures [Dun & Bradstreet, number]	198	331	286	398	304
Prices					
Industrial raw materials, daily index [BLS, 1947-49=100]	89.2	88.1	91.7	91.3	90.9
Foodstuffs, daily index [BLS, 1947-49=100]	90.5	75.9	72.9	74.3	74.3
Print cloth [spot and nearby, yd.]	19.8¢	18.2¢	17.8¢	17.8¢	17.8¢
Finished steel, index [BLS, 1947-49=100]	143.9	186.2	185.4	185.4	185.4
Scrap steel composite [Iron Age, ton]	$36.10	$28.17	$39.17	$37.83	$34.50
Copper [electrolytic, delivered price, E&MJ, lb.]	32.394¢	30.000¢	31.000¢	31.000¢	31.000¢
Aluminum, primary pig [U. S. del., E&MJ, lb.]	20.6¢	26.0¢	24.0¢	24.0¢	24.0¢
Wheat [No. 2, hard and dark hard winter, Kansas City bu.]	$2.34	$1.98	$2.09	$2.08	$2.09
Cotton, daily price [middling, 1 in., 14 designated markets, lb.]	34.57¢	30.20¢	33.51¢	33.61¢	33.60¢
Wool tops [Boston, lb.]	$1.96	$1.66	$1.80	$1.81	$1.81
Finance					
500 stocks composite, price index [S&P's, 1941-43=10]	31.64	53.48	66.80	68.26	68.47
Medium grade corporate bond yield [Baa issue, Moody's]	3.59%	5.12%	5.12%	5.13%	5.13%
Prime commercial paper, 4 to 6 months, N. Y. City [prevailing rate]	2-2⅛%	3⅛%	3%	3%	3%
Banking Millions of dollars					
Demand deposits adjusted, reporting member banks	††	60,971	62,166	63,410	63,920
Total loans and investments, reporting member banks	††	108,765	117,104	117,777	117,035
Commercial, industrial and agricultural loans, reporting member banks	††	32,725	32,960	33,209	33,082
U. S. gov't guaranteed obligations held, reporting member banks	††	29,946	34,414	34,608	34,327
Total federal reserve credit outstanding	26,424	28,417	28,986	29,737	29,544
Gold stock	21,879	18,463	17,377	17,302	17,302

Monthly figures of the week

		1953-55 average	Year ago	Month ago	Latest Month
Private expenditures for new construction [in millions]	October	$2,390	$3,463	$3,731	$3,659
Public expenditures for new construction [in millions]	October	$ 980	$1,553	$1,714	$1,627
Manufacturer's inventories [seasonally adjusted, in billions]	September	$ 45.2	$ 54.7	$ 54.0	$ 54.5
Exports [in millions]	September	$1,290	$1,610	$1,653	$1,616

* Preliminary, week ended October 28, 1961.
†† Not available. Series revised.
r Revised.
§ Date for 'Latest Week' on each series on request.

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READERS REPORT

How to work with OECD

Dear Sir:

Your article entitled "U. S. business to get voice in OECD" [BW Oct.7'61,p54] has come to my attention. As there must be a misunderstanding regarding the attitude of the Council of European Industrial Federations (CEIF) toward the idea of a joint European-American business representation at the Organization for Economic Cooperation and Development (OECD), I wish to make the following statement.

Already at its November meeting last year the CEIF charged its President, its three Honorary Presidents, and its Secretary-General to approach business circles in the United States and Canada with a view of exploring the possibilities of arranging some kind of joint representation at the OECD. . . .

It is true that the CEIF was created in 1949 for the specific purpose of maintaining relations between its member federations and the OEEC. However, the CEIF has developed throughout the years into something more than a liaison body accredited to the OEEC. It has in fact become the organized forum for cooperation between European industrial federations and employers' associations on matters of common interest. This purely European activity should, according to the view expressed by the CEIF Council, be retained.

From recent contacts with various business circles in the United States, I have got the impression that there is a clear preference for the creation of one single body for maintaining relations with the OECD. Having reported and discussed this with leading representatives of several member federations of the CEIF, I can say there is general agreement that we should adapt ourselves so as to be able to meet the U. S. wish to have one single body for relations with the OECD. As for the purely European activity of the CEIF, this could be carried on either in a separate organization as hitherto or, eventually, in a special division of the joint organization to be.

These are the lines along which we in the CEIF are thinking at present, although no decisions have so far been taken by our Council.

Marcus Wallenberg
President, Council of European Industrial Federations
Stockholm, Sweden

Business outlook

BW

November 4, 1961

Many factors join to hold back recovery rate

Washington has had no trouble at all preventing this business upturn from getting out of hand—less trouble, perhaps, than some might have liked. There are several reasons that this has been so up to now:

- **Capacity has been ample in most lines,** more than ample in a few.
- **Prices have been no more than steady,** if that, so neither businessmen nor consumers could see any need for precautionary buying.
- **Strikes have hampered auto output,** crimping demand on suppliers.
- **Foreign countries, notably Britain and Japan, have put the brakes on their economies** with distinct repercussions in world markets.

Doubts about the shape of the economy next year (page 28) have fed upon the relatively slow rise in business from July through October.

It should be remembered, however, that some of the factors in this disappointing change of tempo could quickly disappear.

Autos, idle capacity, and prices are particular cases in point.

Autos, in fact, may prove the key. Output now is the highest in 18 months.

Dealers see bright auto sales outlook

Optimism about auto sales is very nearly as general among dealers as it is among the traditionally sanguine people in Detroit headquarters (page 25).

The typical dealer figures he has two things running for him—the dearth of "clean" used cars (which means a better price to the buyer with a trade-in) and the wash-down of auto installment debt ($675-million in a year).

And, even though the production lines have rolled off just over a million 1962 cars up to now, a lot of dealers are short.

Some of the new car "sales" claimed by dealers last month doubtless represented hopes rather than deliveries to customers.

Especially at a time when strikes have left big empty spaces on the floors of salesrooms, anything that looks like it may turn into an order is likely to be reported to Detroit as a sale.

And this isn't pure hopefulness. If the dealer pads his sales, he can push the factory for more and quicker shipments.

Price index shows more boomerang than boom so far

You would never guess that recovery had been under way for months from the prices of goods (as distinct from the cost of services).

The Bureau of Labor Statistics broad index of wholesale prices, which had climbed so steadily from 1955 to early 1959, hardly moved at all until May of this year. Since then, the drift has been down, not up.

The recent posting of 118½ (with 1947–49 equaling 100) is the lowest in very nearly four years.

Excess capacity restrains prices

Excess capacity shows up conspicuously in the prices of industrial raw materials and the indexes for manufactured goods.

The wholesale indicator for products other than farm products and processed foods (mostly manufactures) hit its peak in April, 1960. Since then it has been in an almost continuous, if slow, down-drift.

Business outlook Continued

The weekly top, 18 months ago, was 120.2. This year's best was 118.2, reached several times in January and February. The low was 117.0 early in October, and movement since then has been inconsequential.

Industrial raw materials, which should theoretically be bolstered by world tensions as well as recovery, maintain an extraordinary calm.

The spot price of metals averaged daily by the Bureau of Labor Statistics has been sliding for two months and is back where it was in June.

Even tin, which sparked the earlier rise, is moving erratically sidewise. Lead was cut ½¢ a lb. this week and, at 10½¢, is the lowest in years. Aluminum was slashed recently and steel scrap has slumped.

Copper, whose market tone in this country might have justified a price rise, has been held back by weakness abroad.

Britain and Japan cut imports of raw materials

Europe's boom and threats of supply disruption (such as the troubles in the Congo), as well as cold war tensions, might be expected to put at least an underlying tone of strength into world markets.

Actually, though, **efforts of Britain and Japan to reduce their imports have seemed more immediately important in raw materials.**

Examples have been weakness in copper, lead, and zinc in London, apparently reflecting inventory cutting by British industry.

Similarly, **the sharp drop in steel scrap is less a reflection of domestic demand than of Japan dropping out of the market.**

Inventory building gains momentum

Rebuilding of inventories by U. S. manufacturers has gone far enough so that this might be expected to benefit basic raw materials.

The first evidence of any real accumulation appeared in the Commerce Dept. tabulation for August and again in September.

The two months' addition amounted to about $400-million for all plants turning out durable goods. That would be less than 1½%, but put it at an annual rate and it comes closer to $2½-billion or 8%.

Examine durable goods manufacturers' inventory operations by stage of fabrication, and you find one interesting fact:

They've been cutting down stocks of finished goods in warehouses ever since May. In other words, their shipments have exceeded production; the draft on finished stocks comes to about $600-million in value.

That's one reason accumulation of materials and more work in process didn't show up in the inventory totals any earlier than it did. Moreover, for total stocks to show any rise at all, materials and work-in-process had to exceed the draft on finished goods.

Strikes hold back factories' sales

Value of hardgoods manufacturers' shipments appeared to be leveling out in the third quarter, and probably advanced little in October (after seasonal adjustment) due to the auto strikes.

This leveling out, however, is at a very high rate indeed; present shipments have been exceeded in peacetime only by the top months in 1959 and 1960—just before and just after the steel strike.

And an additional assurance of continuing high operations:

The order backlog of all manufacturers has risen by $2-billion this year— and new orders go right on exceeding the value of shipments.

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BUSINESS WEEK

Car buyers come out of hiding

Most dealers report the public is in a real buying mood—and sales of '62 models back them up. This reinforces Detroit's sales prediction of 6.5-million cars

Chevy dealer won't cut his price . . .

citing costs to the prospect . . .

who agrees to the dealer's terms

Next week, automobile manufacturers should be reading happy reports from their dealers as they total up October sales. They will, that is, if the dealers tell their factories what they have been telling Business Week reporters:

Sales are very, very good. The last quarter will be fine and the next year looks better than any in recent memory. Some dealers even murmur about "another 1955." "It looks like a better year than 1961," says a Seattle Chevrolet dealer. "It's starting out that way; the market's a little stronger, and there are somewhat more buyers out than a year ago."

A continent away in Boston, even a Ford dealer who has found the market soft is encouraged because customers "are not finding fault with our new cars, whereas they usually tear them apart."

Detroit predictions. What the reporters have found in talking to the dealers is no surprise to market analysts in Detroit. They have been predicting that the new-car market in 1962 will be 6.5-million or better. And up to now they have seen nothing to dampen their optimism.

You can cross off the fact that reports from dealers for the second 10 days in October added up to a lower sales rate than in the first 10 days—something that shouldn't happen in a growing market. The explanation is a shortage of cars because of labor troubles.

A year ago, auto sales started off strong, then collapsed in January because of bad weather and a soft economy. Then, too, when the 1961 models went on sale a year ago nearly 1-million 1960 cars hung over the market. The auto seers can't tell what the winter weather will be like, but they are sure the economy is stronger than a year ago, and that no great supply of 1961 models clutters up the salescape.

That's how the Detroit chartwatchers explain the fact that most of the dealers are bubbling with optimism and high hopes. The dealers, though, have more tangible reasons for feeling that things are looking up. The customers are coming not just to look, but to buy.

I. A buying mood

In every market surveyed, some—and, generally, most—dealers report that their floor traffic is less than a year ago. But, one man says, "There are more sales per looker."

"Customers are in a mood to buy, but want to buy right," says a Des Moines dealer. "Things were slow in August, but they came out of the woodwork in September." A Lincoln-Mercury dealer in Miami believes "people need to replace what they're driving now. The customer is just coming out of two years in hiding."

With quiet satisfaction, dealers report that there seems to be less shopping. Fewer people than a year ago are running from store to store to see if they can beat the last dealer's price. Dealers think this is mainly due to the shortage of cars—caused in some instances by strikes,

in others by strong sales. Some Rambler dealers declare they are short of merchandise even though their factory has had no strike interruptions.

Good prices. The shortage of cars also means dealers in most instances are getting good prices. And many comment on the great number of cash buyers. That the dealers even mention this indicates the consumer is well able to buy if he is in the mood, because dealers should know as well as the market researchers that the early buyers historically are cash buyers. This year apparently there are just more of them.

And, as the Des Moines man said, they are a choosy lot of customers—in most cases. "Why," says a Pittsburgh dealer wonderingly, "you can't even talk them out of a color." (That's not true at a Seattle Chrysler-Plymouth spot, though. "If they get real hot for an auto," says owner Frank J. Morrill, "they will change their minds awfully fast on color.")

Waiting lists. More customers seem to want subdued interiors and so-called "luxury" equipment—even in compact cars. Bucket seats are in demand. By and large, customers are patient about their wants. If a dealer doesn't have what they want in stock they will wait until he can have it built. It has been years since dealers have been able to boast about a sheaf of orders for delivery in 60 or 90 days—and all backed by cash deposits.

This shortage of stock, and return of the waiting list, could be a two-edged sword.

On the one hand, when cars are short some people shun the showrooms because they think their bargaining position is poor (which it is). On the other hand, as long as a dealer can sell what he has at good prices he would just as soon some customers did wait—so he can stretch the boom into next year.

Buying hold-off? In Miami, one dealer says: "This shortage could chase a lot of people out of the market. Buyers are still looking for deals, like to think they've got the dealer cornered. Since they don't think there's a big sale on, some are deciding they can get a better deal later by waiting. Also, some people just don't like to wait for orders to come in, so they're holding off." And another dealer fills out the picture: "Thirty days ago I thought it would be my best quarter. But now I'm not sure. Lack of deliveries has dampened prospects. Dealers have more unfilled orders now than at any time since World War II."

II. But will it last?

There's another danger in the shortage of cars: Some people may wait so long for demand to ease off that they finally decide to wait for the 1963 models. One of the oldest beliefs in the auto business is that a sharp upcurve in sales can be flattened abruptly if prospects can't get delivery on cars when they're in a buying mood. And from everywhere comes evidence that they are in a buying mood.

Brisk sales. A dealer in Louisville says it is almost "impulse buying." In Atlanta, a dealer talks about consumers being "in much better spirits." In San Francisco, "they're ready to negotiate." In Kansas City, a man selling Chryslers says, "We get the impression from prospective buyers that their economic condition is better than a year ago."

Indeed, it is hard to find any gloom about the automobile business. In the New York area, observers feel queasy in the face of a sales increase of only 15%. In Pittsburgh, where steel unemployment is still high, there are some reservations about the auto market, but not many. Detroit, another place where unemployment remains high, shows booming auto sales.

Used cars. The used-car market, which unfailingly tips off the future of new car sales, has been stronger longer than it should have been. But this, too, is due to low production. Used-car prices have been high because of the scarcity of late model trade-ins. Usually, used-car prices begin dropping this time of the year, both because of the brisk trade for new models—increasing the supply—and because of the approach of winter.

But the prices have hung high. Only this week have some of the experts thought they detected the start of mushiness in used-car prices. If you went by the used-car market and nothing else, you could not help but feel new car sales would be good for at least another three months.

A few dissenters. If you want to throw a little cold water on all of this enthusiasm, listen to one dealer in Washington—one of the choosiest, toughest markets in the country. While most Washington men chant the happy words heard elsewhere, one says: "There are a lot of lookers, not buyers. We're still not biting into the pie."

And there are dissenters in every city, as you might expect. Often the dissenters represent a Chrysler Corp. car. Their outlook perhaps is best put in perspective by one in Washington: "I think it will be a fair year, but I don't think the industry will sell 6.5-million. That's fine thinking for a Chevy dealer. For us it's going to be a struggle."

This caution was echoed by a San Francisco dealer. He was talking specifically about the good prices he has been getting; but he could have been talking as well for his colleagues across the country about the entire market outlook: "How can we really be sure, short of actually having an ample supply of cars to sell?"

Buyer goes along with dealer to take a look at his new car. The dealer promised delivery in less than a week

How the budget is shaping up

[Billions of dollars]	1961 actual	1962 budget: As seen by Eisenhower Jan. 1961	1962 budget: As seen by Kennedy Oct. 1961	1962 budget: Change from 1961 actual
National security	$47.4	$47.4	$51.1	+$3.7
International affairs	2.5	2.7	3.0	+ .5
Space	.7	1.0	1.3	+ .6
Housing, community aid	.6	.6	.9	+ .3
Agriculture	5.1	5.1	6.3	+ 1.2
Natural resources	2.0	2.1	2.1	+ .1
Health, education, labor, welfare	5.0	4.7	5.6	+ .6
Total spending [excluding trust funds but including other items not listed above]	**81.5**	**81.0**	**89.0**	**+ 7.5**
Personal income tax	41.3	45.5	44.8	+ 3.5
Corporate income tax	21.0	21.0	21.7	+ .7
Excise taxes	9.1	9.7	9.7	+ .6
Other receipts	6.9	6.9	6.5	— .4
Total receipts [May not add because of interfund transactions]	**77.6**	**82.3**	**82.1**	**+ 4.5**
Deficit [—] or surplus [+]	**—3.9**	**+1.3**	**—6.9**	
Social Security	11.8	12.7	13.4	+ 1.6
Highways	2.7	3.2	3.2	+ 0.5
Unemployment relief	4.7	3.8	3.8	— 0.9
Total trust fund spending [including other items not listed above]	**23.2**	**25.1**	**25.7**	**+ 2.5**

© Business Week

Big deficit now, in balance next year

That's the picture as the 1962 fiscal year budget is reviewed. Pres. Kennedy is talking economy in spending but counts on revenue rise to balance '63 budget

Pres. Kennedy and his budget controllers this week reported on how the 1962 budget—Kennedy's first full year of stewardship—is doing at the quarter mark (table). To no one's surprise [BW Oct.14'61,p25], they found it headed toward a $6.9-billion deficit next June 30. Some officials say they won't be surprised if it's a billion or two more.

This confronts Kennedy with some tough decisions if he is to deliver on his promise of a balanced budget for fiscal 1963. He made the promise in July when he got Congress to approve extra spending for space and defense, and he has since repeated his statement with only one loophole phrase: "barring extraordinary and unforeseen defense requirements."

Whatever the justifications for running an increased deficit in the current fiscal year—and Kennedy points to the need to end the 1960 recession and to match the Russians in space and in military power—a pledge of a 1963 balanced budget calls for sharp pencilwork between now and January, when the budget draft must go to Congress.

I. The prospects

At a special Cabinet meeting a few days ago, the President emphasized the need for economy in spending—for holding down on hiring and for deferring any project that isn't absolutely necessary. He stressed the importance he attaches to his thrift talk by having it bound into this week's official 1962 budget review.

Nonetheless, it appears that spending in fiscal 1963 will jump to $92-billion or more from the current year's level of $89-billion. The hope for a balanced budget next year lies chiefly in the revenue side of the account. Budget Director David E. Bell says revenues will rise at least $10-billion as income taxes, particularly from corporations, reflect higher 1961 earnings.

A $10-billion gain in revenues from this year's $82-billion would neatly match a $92-billion spending figure.

Frugality. Pres. Kennedy isn't letting his 1963 budget balance come about so patly—at least not without trying to do something about spending. The U. S. is committed to its European allies to fight inflation and to straighten out its balance-of-payments difficulties. To these allies, big spending looks like a cheapening of the dollar, particularly if the budget runs a deficit.

When Kennedy, at the special Cabinet meeting, asked his department heads to follow "a most careful and frugal policy" on spending that had been authorized by Congress, some of his remarks sounded like an echo of Eisenhower, "appropriations are only a ceiling, not a mandate to spend," for example, and his request that "new programs or expansions of existing programs be undertaken with care and deliberation."

The President said he was "especially desirous that the number of government employees be limited to the minimum consistent with getting the job done."

Shifts in spending. He has already held down spending in some cases. He impounded nearly $800-million that Congress authorized for additional B-52 bombers and for development of a B-70 bomber and the Dyna-Soar space glider. About $200-million of this would have been spent this year.

His additions to spending have added up to $6.4-billion this fiscal year: $4-billion for national security, space, and international programs; $1-billion for anti-recession measures, including extension of unemployment compensation benefits, and $1.4-billion attributable to a variety of other programs.

Broad view. It's hard to say how long and how deeply the Kennedy thrift movement will go. Walter W. Heller, chairman of the Council of Economic Advisers, views the current fiscal year's $6.9-billion budget deficit with equanimity, if not ap-

proval. As far as economic well-being is concerned, he says, it is a "constructive" rather than "destructive" deficit.

Heller suggests some of the thorny policy problems that will face Pres. Kennedy by next spring when he says that the business boom may level off around the middle of 1962, just about as the new federal spending tapers off and revenues catch up. It could be, he suggests, that more spending rather than less will be in order to keep the recovery alive.

II. Different accounting

Because the conventional administrative budget is so laggard in responding to economic changes, Heller and other government economists are urging broader understanding of a different kind of budget, a record of government income and outgo that is called the income and product account.

In this form of accounting, big spending changes don't reflect themselves so sharply in big deficits or big surpluses. The income and product account keeps closer tabs on the immense impact on the economy from federal spending and intake of money. It is, says Heller, "a much more useful and reliable measure, one on which a major educational job is in order."

The Commerce Dept. has for years compiled this accounting, which includes only transactions that have an income-generating effect and does it on an accrual, rather than cash, basis of reporting. This makes a vast difference in timing on the revenue side of the federal budget. Corporate income taxes, for example, are calculated as the profits are earned and accrue, rather than months later when they are actually paid to the Treasury.

More palatable. This system of accounting has the effect, at least during a business upturn like the present one, of making spending increases more palatable, since it also shows earlier the effect of a rise in federal receipts.

For fiscal 1962, the federal budget on income and product account shows a deficit of only $200-million—in contrast to the $6.9-billion in the administrative budget. More important from Heller's point of view, it indicates a surplus next spring. Thus, the economic impact of government operations will change then from stimulus to restraint. Some economists estimate a second-quarter annual rate of $500-million surplus and an annual rate of around $2-billion surplus in the third and fourth quarters.

Steady but moderate gains for 1962

"Standard forecast" is for a GNP of $560-billion—about 7% above this year's probable level of $521-billion. Bearish economists see a recession by yearend

The business of economic forecasting has a seasonal peak of its own—and it comes about now, as companies firm up their plans for the new year.

In meetings throughout the country—some public, many private—the economists are assembling to compare predictions. What they say, or whisper, to one another may become an element in the business outlook itself. The forecasters—most of whom are highly sensitive to each other's thinking or reporting—have come to play an increasingly important role in company planning.

The "standard forecast." Out of the economists' meetings emerges what has come to be known as "the standard forecast." This is the prediction for the coming year around which the bulk of the economists cluster. Says Walter Hoadley, Jr., of Armstrong Cork Co.: "From year to year, the standard forecast has been getting better."

Last year, for instance, the standard forecast was for a moderate and short-lived recession in 1961 [BW Sep.3'60,p30], while a minority of bearish economists thought the U. S. was headed for the most serious postwar drop, and a minority of bulls thought there was not even going to be a recession.

Horoscope for 1962. This year, the standard forecast (chart) is for a continuing business expansion throughout 1962—with a good (but not sensational) rate of gain in the first half and a slower climb in the second half.

Over-all, the standard forecast is for gross national product to average $560-billion in 1962—a 7% gain over 1961's probable level of $521-billion. Most economists do not expect prices next year to rise by more than 2%, hence they foresee a real 5% year-to-year gain in GNP.

The standard forecast does not yet predict a turn into recession from the anticipated fourth quarter of 1962 rate of $570-billion. But many business economists already are worrying that signs of an imminent recession may show up by the end of the year, a recession that they think might arrive early in 1963.

Split panel. At the recent meeting in Chicago of the National Assn. of Business Economists, 11 of the 18 members of a special forecasting panel said they expect the business recovery to top out by the first quarter of 1963. But only a couple of the economists represented on the Chicago forecasting panel think the expansion will come to an end before 1962 is over.

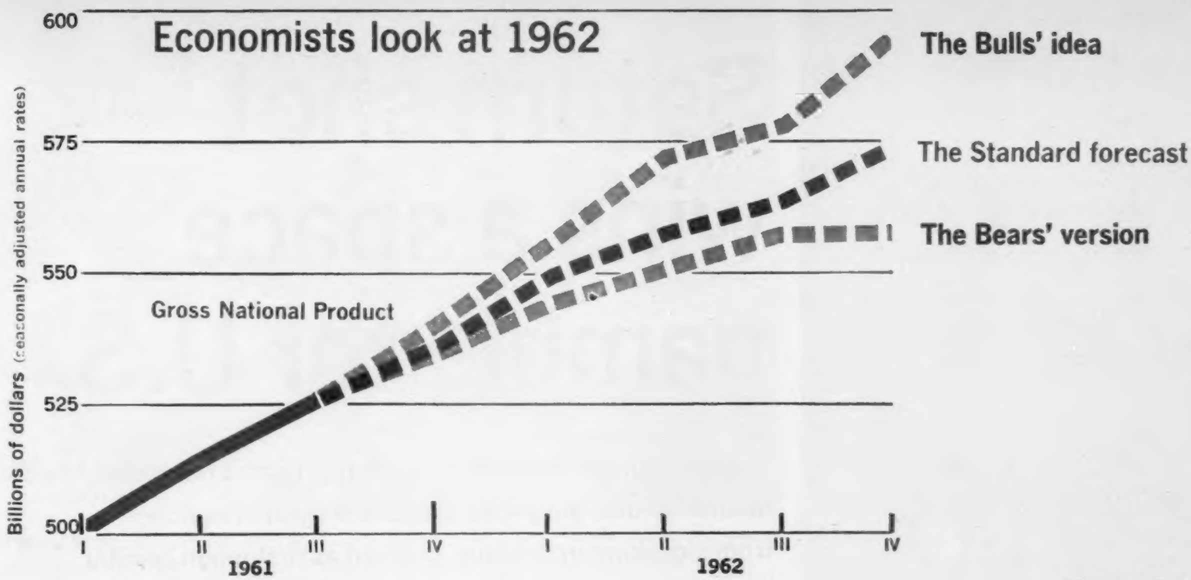
Shift in spending. Arthur Rosenbaum, of Sears, Roebuck & Co., is one of these Chicago bears. Rosenbaum's over-all GNP forecast for 1962 is $551-billion, about $10-billion lower than the standard forecast.

Rosenbaum says he is relatively conservative in his estimates of the gains in business investment in either plant and equipment or inventories—and attaches his caution mainly to his worries about consumer spending on goods.

Consumers, says Rosenbaum, keep shifting their spending from goods to services—and this shift helps to check the rise in business investment. Further, he expects housing construction to improve only moderately—and not enough to set off a real climb in durable goods purchases. "We are prewarned," says Rosenbaum, "by the steady rise in vacancy rates and the current buying attitude of consumers not to expect a boom."

Rosenbaum sees the sluggish trend of consumer spending on durables rooted in record consumer stocks of durables of all kinds, record amounts of installment debt, a slackening in the rate of family formation, and persistent unemployment. He thinks the turn to recession would very likely come in the last quarter of 1962.

Bear forecasts. Although Rosen-



Data: Dept. of Commerce; Business Week

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baum is publicly clearer and franker than his bearish colleagues, he has a good many fellow worriers around the country. What might be called the "standard bear forecast" is for a GNP level of $550-billion to $555-billion in 1962, with the trend going flat in the second half of the year.

The bears generally are worried about what they consider a lack of oomph in consumer demand, the persistence of excess capacity in the economy, and the probability that these factors will prevent more than a modest stepup in capital spending. They foresee persistent rises in costs, especially wage costs, while companies face heavy competition at home and abroad, which prevents them from raising prices and improving profit margins.

These bears—and many can be found on Wall Street these days—expect profits to peak in the second quarter of 1962. They argue that the stock market will take note of this squeeze and start to forecast a business decline well before the end of 1962.

Bullish dissenters. Of course, there are not only bearish but also bullish dissenters from the standard forecast. Typical bulls forecast GNP to average $570-billion to $575-billion in 1962, with the fourth-quarter rate hitting $590-billion or even more.

The bulls consider that their colleagues, including not only the bears but also the adherents to the standard forecast, have fallen victim to the fundamental fallacy of all economists—the tendency to assume that tomorrow will be like today.

When business was moving up sharply earlier in the 1961 recovery, these men say, the economists saw boom ahead. Then, when the rate of rise slackened through the summer and early fall, the economists turned cautious and foresaw a slower rate of climb in 1962.

Wider profit margins. The bulls argue that the economists do not fully appreciate yet the changes that will make 1962 a much stronger year than they now expect. Despite hefty competition and genuine pressure on prices, these men believe that the results of serious programs of cost-cutting together with higher rates of operation are enabling profit margins to widen. In fact, new data from the Commerce Dept. support the bulls on this view: According to the new monthly report of Business Cycle Developments [BW Oct.14'61, p180], profit margins have been improving since the spring of 1961. Corporate profits were up smartly in the third quarter to $47-billion [BW Oct.28'61,p25] and should continue to climb well above the $50-billion mark in 1962.

More capital spending. With profits moving up, the bulls believe the capital spending curve will strengthen as 1962 wears on. One expert on capital goods figures that companies should generate $36-billion to $38-billion in internal funds—out of retained earnings and depreciation allowances in 1962.

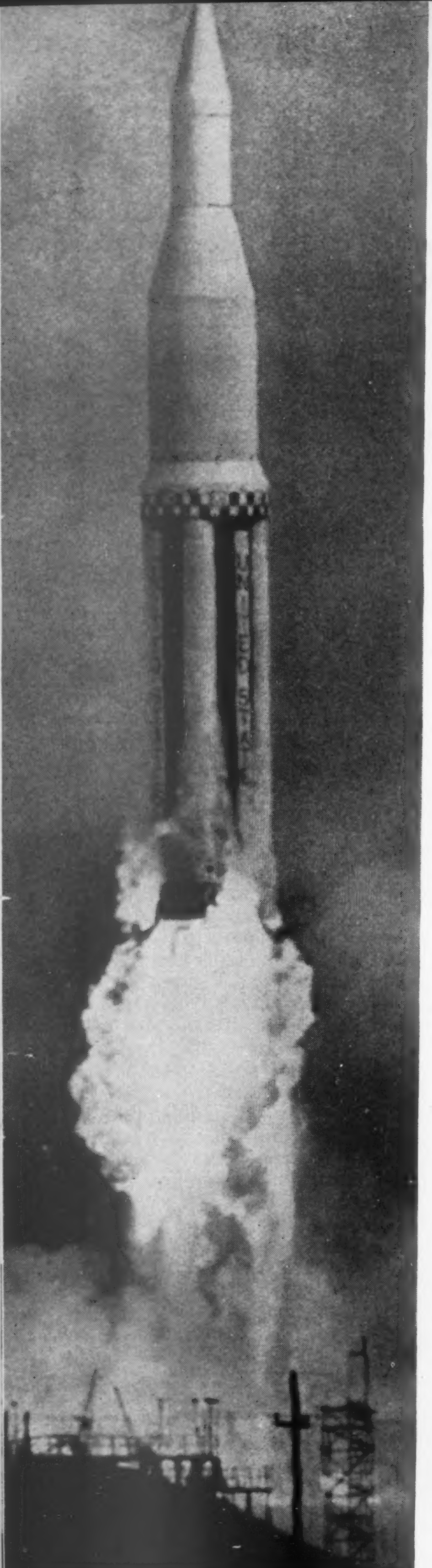
Since business ordinarily spends 10% to 15% above the funds it generates internally on new plant and equipment, this man sees capital spending topping $40-billion in 1962—up more than 15% from 1961—and thereby propelling the economy forward at a faster rate than the bears or the standards foresee.

The consumers will boost their expenditures, say the bulls, as soon as they get their hands on more income; and talk of the sated or war-worried buyers will fade away. Judging by the consumers' performance thus far on auto dealers' lots and in showrooms (page 25), the bulls believe that events are supporting their stubborn confidence.

Trouble—or recovery. Bulls, bears, and standards alike are well aware of the rising trend in government outlays (page 27). To the worriers, this upswing spells trouble: inflationary pressure, restrictive monetary and fiscal policies, balance-of-payments troubles, dangers of another gold rush. To the optimistic, however, the upswing in total federal, state, and local government spending—which should be about $10-billion in 1962—looks like extra support for an ongoing recovery.

Devotees of the standard forecast consider that they have made a judicious reconciliation of the two extreme positions. They foresee moderate growth, heading toward a business cycle turn the following year.

Their big hedge for the short run is the balance of payments—which many expect to run a deficit of $3-billion or more next year. But skeptics about the standard forecast contend that it does not represent a golden mean but a golden muddle. "It's a product of rumor," says Robert A. Kavesh, professor of economics at New York University, "and should be analyzed by social psychologists."



Giant Saturn rocket is first big step in U. S. drive to win race to the moon.

Saturn shot wins a space gamble for U.S.

Spectacular success of first range test proves out rocket mounting idea, plugs gap in space program resulting from slowdown in Centaur, planned as first moon booster

The U. S. civilian space program made a significant advance last week, with the spectacularly flawless first launching of the Saturn C-1—the U. S. first multimillion-lb. space booster (picture, left).

Before the giant rocket—a cluster of eight liquid H-1 engines—shot up from Cape Canaveral, Fla., rocket experts had given the initial launch trial only a 25% chance of success. There had never before been, in the U. S. at least, a live range-firing of such a powerful first stage booster (1.3-million lb. of thrust).

What it tested. Saturn C-1 wasn't fully fueled. Instead of live top stages, it carried inert upper staging filled with water. And its aims were modest—a short, 8-min. flight, a peak altitude of 95 mi., a top speed of 3,600 mph.

But it was testing, for the first time under actual flight conditions, the principle of mounting big liquid rockets on gimbals in a cluster. The purpose of gimbaling is to permit the individual engine units to move within the gimbals on which they are suspended, and thus give the whole rocket maneuverability and stability.

The reliability of the Rocketdyne H-1 engines—capable of developing 188,000 lb. of thrust apiece—wasn't questioned by test development engineers. Each individual engine had been carefully static-tested both at the Cape and at the George C. Marshall Space Flight Center of the National Aeronautics & Space Administration at Huntsville, Ala. The H-1 design, developed originally for the Jupiter IRBM, was considered as sound as any rocket the U. S. has developed.

Gamble. What was riding on the first launch of Saturn C-1 was whether a cluster of already available liquid rockets could really be lashed together to work as a single booster stage without too many major development changes in the basic engine unit. This was a gamble—a gamble that could, if it failed to pay off, hurt the U. S. space program both at home and abroad.

Disbelievers in the Saturn concept have long charged that, beyond a certain point, money put into the Saturn developmental program was a waste of valuable research talent and effort. But Wernher Von Braun (picture, far right), former deputy chief of the Army's crack ballistic missile development team and now head of Marshall, thought the Saturn concept could be made to work.

Von Braun's chief sales pitch for Saturn was reliability. If it could be made to fly, Saturn could give the U. S. the capability to loft a 15-ton manned satellite into earth orbit by 1964. The largest satellite thus far orbited by the Russians, Vostok II, weighed about five tons.

The simplest way to make a cluster of rockets behave as a reliable single unit, Von Braun and his engineers decided, was to arrange them in a circle so that each alternate rocket could be gimbaled as it fired. Then, if one or another of the engines failed in flight, the system would still be operational and could be kept under guidance control.

But no one knew, until the idea was actually tested, whether it was really feasible.

Nick of time. The success of the test in Saturn C-1's spectacular debut comes at an extremely oppor-

Before firing, Robert Mosier (left), who conducted Saturn test, checks launching procedure with Dr. Kurt Debus (right), director of launch operations.

After shot, Wernher Von Braun (right) cuts cake in celebration of test success.

tune moment, and plugs a gap that was opening in the space program, NASA officials now admit.

In the original broad-scale timetable of U. S. space exploration, Saturn I had been counted on as a major heavy-duty booster well through the 1960s.

Then, last May, Pres. Kennedy set a new space goal for the U. S.—the landing of a three-man exploration team on the moon before the decade's end. Saturn I's big future began to fade. Speed in getting a multimillion-lb. booster in hand quickly became a prime NASA target.

Centaur—with a modified Atlas ICBM as first stage and a liquid hydrogen, liquid oxygen second stage —came to the fore. Centaur should be powerful enough to put 2,500 lb. out of the earth's atmosphere; thus it could be useful for instrumented moon landings.

Behind Centaur, the mighty F-1 engine—capable by itself of 1.5-million lb. of take-off thrust—would be coming along. In the NASA plan, two Rocketdyne F-1 engines (when available) would be put together to form the first stage of Saturn C-3. Eight F-1s would form the first stage of Nova, the basic heavy-duty booster of the late 1960s and early 1970s.

With Nova, the U. S. could boost hundreds of tons of payload out of the earth's atmosphere in a single firing. Moon and then space exploration could begin in earnest.

That is, if all went well. Early last summer, though, rumors began to circulate through industry that Centaur was slipping badly behind schedule, with a resultant blow to U. S. space hopes. Unofficial estimates differ somewhat as to how far the slippage has now progressed. But a good round number is 12 months behind schedule. And it's still slipping fast.

Difficulties seem to center around Centaur's tricky cryogenic (ultra-low temperature) second stage. But some in the aerospace industry are also unhappy over problems in adapting the sometimes temperamental Atlas as a Centaur booster.

NASA refuses comment except to say that first range tests for the Centaur system are now figured for late 1962 (the original schedule called for them before the end of 1961). There's still no official hint of canceling Centaur, but one source inside NASA admits the idea is under consideration—unofficially.

Spotlight on Saturn. This puts short-term hopes for a U. S. civilian space program squarely on Saturn I. It, too, has still unproven upper stages. But it's the only big booster that NASA can count on for test purposes before 1965.

A Saturn C-1 for a second range test (again with dummy upper stages, but with a more sophisticated instrumented payload package) is now being fabricated at Huntsville. Launching will be in March, says Kurt Debus, head of NASA's Canaveral launching operations (picture above, left).

There will be a third Saturn I firing later in 1962, and seven more in 1963 and early 1964. Starting with the fifth firing, the 162-ft. booster will carry live upper stages. On the seventh (some two years away), it will carry an early, unmanned model of the Apollo three-man moon exploration vehicle—for a first orbiting test lasting up to two weeks.

There's little chance, even with last week's successful first trial, of speeding up this schedule. Tests on the first stage could possibly be accelerated somewhat, Von Braun admits, but that would only leave Saturn I waiting around for development of its upper staging.

Fresh look. Besides Saturn I's first perfect performance, two other developments may force NASA to take a fresh look at its big booster plans:

- Sometime this month a Senate subcommittee headed by Sen. Robert S. Kerr (D-Okla.) will hold public hearings on both Centaur and Saturn. This means a major airing of Centaur's general and specific difficulties, industry men are saying.
- The report of a committee headed by scientist Nicholas E. Golovin—studying both NASA and Air Force big booster requirements over the next decade—was due to be submitted to NASA and the Pentagon sometime this weekend. The committee includes NASA, Defense Dept., Administration, and industry representatives. Persistent rumors have it that the report will speak up loudly for heavily increased funds for developing multimillion-lb. solid-fuel and hybrid (solid fuel with a liquid oxidizer) booster systems.

These presumably could be brought into use around 1964. They would act as support and backup for Saturn C-3 and Nova, both of which depend for success on the giant, but still unflown, F-1 liquid engine.

FTC shapes new philosophy on mergers

In ruling that Union Carbide rid itself of Visking polyethylene film business, Chmn. Dixon dwells on amalgamation of economic power, suggests new FTC tacks

The Federal Trade Commission this week ruled that Union Carbide Corp. must get rid of the polyethylene film business it acquired five years ago from Visking Corp.

But the commission, in a significant opinion by Chmn. Paul Rand Dixon, did not force Carbide completely out of film manufacture. And it allowed the company to retain the sizable synthetic sausage casing business acquired from Visking.

Broad decision. Dixon's opinion is an important one. It ranges beyond Carbide's acquisition of Visking, which was challenged in 1957 by FTC, and suggests some new tacks for the commission in antimerger complaints.

Dixon's decision was so broad, in fact, that Commissioner Philip Elman wrote a separate opinion, agreeing with the commission's divestiture order but criticizing the antitrust philosophizing in Dixon's majority decision. Commissioner William C. Kern, in a dissent, agreed with Elman that Dixon's opinion was too broad, but said there was insufficient evidence before FTC to order divestiture.

FTC's ruling. The FTC order means that Carbide will have to sell polyethylene film extrusion plants acquired from Visking in 1956, located in Flemington, N. J., Fremont, Calif., and Terre Haute, Ind. Carbide is the nation's largest producer of polyethylene resins, which are made into film; and Visking, before the acquisition, was the largest consumer of these resins. This transaction, the commission ruled, clearly violated the Clayton antimerger law.

Carbide will be able to retain a film plant it built in Cartersville, Ga., following its purchase of Visking for about \$91-million worth of stock. This leaves the company a solid competitor in the rapidly growing polyethylene film business.

Also, Carbide can retain facilities for making synthetic sausage casing in Chicago and Loudon, Tenn., that it acquired from Visking. About half of Visking's total sales—or roughly \$25-million—came from this product before the merger. FTC ruled that acquisition of this business by Carbide did not represent any lessening of competition since Carbide previously had no connection with sausage casing manufacture. This represents a significant, though partial, victory for the company.

Action uncertain. At midweek, a Carbide spokesman said the company had not yet decided whether to appeal the FTC decision. If it does not appeal, or fails to get a reversal of the order in the courts, divestiture will be somewhat simplified because Visking has been operating as an independent division.

This is not to say, however, that Carbide will not sell the plants individually if it can get a better price that way. The company was ordered by FTC to submit a compliance plan within 60 days (or notify the commission of an appeal within that time).

Far-reaching aspects. The real impact of Dixon's opinion, however, may come from sections of the decision where he strayed from his consideration of the Carbide acquisition and pondered some more far-reaching aspects of the antimerger law.

He suggested that the legal definition of a line of commerce should be altered in a way that would help FTC and the Justice Dept. in antimerger complaints. This is important in an antimerger case, because the law says that mergers are illegal when they may reduce competition or create a monopoly "in any line of commerce in any section of the country . . ."

New factor. The Supreme Court, in its 1956 decision dismissing a Justice Dept. charge that du Pont was monopolizing the cellophane market, ruled that cellophane was not itself a line of commerce because it competed with other types of wrapping material. A year later, in the du Pont-General Motors Corp. stock case, the Supreme Court said a product must have "sufficient peculiar characteristics and uses" to be a line of commerce in antitrust terms. These decisions gave trustbusters the job of proving a fairly specific line of commerce in merger suits.

But the commission ruled that in the Carbide case, polyethylene film is itself a line of commerce and in reaching this conclusion, Dixon said the commissioners also considered a factor "which has received little attention" by the courts. This, he said, "is the preference of users or buyers for a particular product or material despite the existence of adequate substitutes."

"A packager who desires a package with the physical characteristics of polyethylene film must buy a polyethylene film package just as the housewife who desires a tablecloth with all the characteristics of linen must purchase one of linen," Dixon said.

One FTC attorney describes this reasoning as a "logical extension" of the Supreme Court's two du Pont rulings. But it implies that to establish a line of commerce for antitrust purposes, government lawyers simply would have to show that the product involved was in demand by customers because they liked it more than competing products. Dixon's reasoning on the subject is sure to get close examination from courts and antitrust lawyers.

Before and after. In another portion of his opinion, Dixon discusses the role of size and economic muscle in an antimerger case. He compares the power and capability of Visking before and after its merger with Carbide—pointing out that as an independent company, Visking was backed by assets of \$38-million; while as a merged company it was backed by assets of about \$1.5-billion.

Even as an independent film extruder, Visking accounted for over 40% of polyethylene film shipments in 1956, Dixon said, with its next largest competitor shipping only 6.5% of the total. He concluded that Visking by itself had considerable economic power over its competitors, and that the merger with Carbide gave a real boost to this power.

Dixon quickly added that the merger of the \$1.5-billion Carbide with the \$38-million Visking "would not of necessity effect a lessening of competition." But he said the combination of the largest supplier of a raw material with the largest processor of the same material tended to insulate Visking from competition of other extruders and gave the com-

bined company power to lower film prices below the break-even level of smaller competitors and "yet realize a profit on over-all operations."

"Without doubt, the Union Carbide-Visking combination is a more formidable antagonist to the small film extruders than Visking alone," Dixon said.

Focus on power. Dixon regards the Clayton antimerger law as one that never has been enforced adequately because, he believes, means of enforcement never have been thoroughly explored.

Dixon makes clear that he believes the Carbide-Visking acquisition violates the Clayton Act because of a possible lessening of competition in the polyethylene film business.

But in a single page of his opinion, Dixon uses the word "power" five times. It is obvious that he is focusing attention on amalgamation of economic power, regardless of whether it is accompanied by any direct reduction of competition.

New York Times to invade West

Its coming Western edition may be step toward a national setup; but it faces stiff competition from Wall Street Journal edition and national Sunday paper

The New York Times will start printing a Western edition in Los Angeles next fall, in what may prove to be the first step toward its becoming a national newspaper.

The Times announcement this week comes on the heels of word from the Wall Street Journal—already a national paper—that its publishers will start a national Sunday newspaper by next year. Together, these moves can only add to the scramble for advertisers among national magazines; who have been locked in tooth and nail combat for the last couple of years.

Not committed. The Times makes it clear it is not committed to becoming a national newspaper, but its Western edition certainly will be watched in the advertising industry as a move in that direction. Ever since the renowned New York morning paper printed an experimental West Coast edition during the 1956 Republican convention in San Francisco, the rumor has persisted that it eventually would go national. And Times executives do not rule out the possibility.

What goes on in the West Coast advertising market, once the new Times edition gets under way, may well provide some clues to what an eventual nationwide fray would look like. In the Times move, publisher Orvil E. Dryfoos said it will "seek to supplement, not to supplant" local newspapers. It may attract some local retail advertising, but it will concentrate primarily on national advertisers. In doing so, it will run head-on into regional editions of national news weeklies and into the well-heeled Pacific Coast edition of the Wall Street Journal.

Competition. The Times Western edition will be published every day except Sunday, in competition with the Monday-to-Friday Wall Street Journal. Its Monday paper will carry a four-page news review of the week, in competition with news weeklies that for the most part appear on Tuesday. The Sunday paper contemplated by Dow Jones & Co., publishers of the Wall Street Journal, will start printing in Washington, D. C., and presumably move westward. When it enters the West, it will compete with the Times Monday edition and the news weeklies.

The Times pooh-poohs the idea that it will be competing with the Journal on the Coast. "We are seeking a broad, quality audience; we are not a specialized publication," declares Andrew Fisher, assistant general manager of the Times, who will also be executive head of the Western edition. The Journal, however, considers itself something more than a "specialized" publication, and in fact reaches a fairly broad audience. Its Sunday paper will be aimed at an outright general readership.

Profits and rates. In a contest with the Journal outside the Times' home base of New York City, the Times will meet a strong competitor. As it is, the Times operates on slim profit margins. Its 1960 net income of $1,652,392 was a scant 1.5% of revenues; in a better year, 1959, it made less than 3%. Dow Jones & Co. is in a stronger financial position; in the first nine months of 1961 its net income of $4,890,268 was almost 13% of revenues.

The Journal's success in regional editions has been made possible in part by an advertising advantage that may not be open to the Times. Because the Journal is classed as a business publication, it can charge higher rates than a daily newspaper.

On a national basis, the Journal's circulation of 710,573 (the official rating as of Oct. 6) permits it to charge $6.80 for the basic line of advertising space. The New York Times, with a circulation of 744,763 on that date, has a basic rate of $2.40 for a line that's only slightly shorter. (Unaudited Journal circulation is close to 800,000 nationally.)

So far, the Times has not established its advertising rates on the West Coast, according to Fisher. As to the size of the paper, which, of course, is a function of advertising lineage, Fisher does not foresee a paper "even half" as large as the New York edition, which averages 64 pages a day on a year-round basis (excluding the massive Sunday edition).

Built-in economies. On one point Fisher is definite: The Western edition quickly should be profitable. That's partly because it will be printed on a job basis, and will use some of the staff and transmitting system established for the International Edition in Paris. As in Paris, type will be set electronically by Teletypesetter, using a coded tape punched in New York. The same tape can set simultaneously in Paris and Los Angeles. Also, the Western edition will sell for 10¢ a copy, compared to its 5¢ New York price, which has long dampened profits. In fact, the Times seems so sure of a profit that it plans to discontinue service by the Times News Service to West Coast papers when it starts publishing there. Says Fisher: "That means a sufficiently large loss of income that we had to weigh the decision very carefully."

Soviet tests put U.S. on the spot

Washington is now assessing their effect on the East-West balance of power and weighing the military and scientific advisability of resuming atmospheric testing

The Soviet Union exploded its second thermonuclear bomb in the 25-50 megaton class this week and the shockwave felt round the world was violent and immediate.

Inside Washington, it was apparent that the Kennedy Administration was reconsidering its own decision about resuming bomb testing in the atmosphere. Prime Minister Macmillan said Britain was prepared to back any decision the U. S. made in this area in order that the balance of world military power be preserved.

Glenn T. Seaborg of Atomic Energy Commission says U. S. still leads in atom knowhow.

On the technical side of the fence, U. S. scientists were still of mixed opinion as to how big the most recent Soviet test explosion really was. But they were agreed on at least two other points:

- The chief aim of the current test series, as Premier Khrushchev told the Communist Party Congress on Oct. 17, may well have been the development of a triggering device for a much larger thermonuclear bomb —somewhere in the 100 megaton range.
- The intensity and variety of the tests is a matter for real concern. The Soviets may well be able to score major advances in nuclear technology on the basis of what they have learned from the series.

No danger yet. Scientific consensus in the U. S. holds that, as of Oct. 31, the total radiation, spewed forth into the atmosphere by the recent Russian blasts, represents no real danger to human life. Most of the Soviet tests were set off high enough so that the bulk of their radioactive debris has already gone into the stratosphere. When this debris begins to come down next spring, the worldwide fallout level undoubtedly will rise sharply—but not dangerously, Public Health officials say.

The dangers of fallout are, in large part, a function of two factors: the type of bomb, and the altitude at which it is exploded. On the basis of necessarily inexact data—supplied by Free World monitoring stations —scientists believe the equivalent yield of all the Russian explosions in recent weeks was roughly 100 megatons and that the average altitude was around 20,000 ft. U. S. health officials say this means that fallout next spring will be "somewhat above, but not seriously above" that of the spring of 1959.

Strontium-90 fallout at ground level in the U. S., however, should be about two-and-a-half times what it was during the spring of 1959. This is the radioactive element that eventually turns up in milk and milk products, the danger of which is still a subject of medical controversy.

Where U. S. stands. The big question at this point, however, is not the immediate danger of fallout, but the effect on the military balance between the U. S. and the U.S.S.R. Will Soviet testing necessitate the resumption of atmospheric testing by the U. S.? And what kind of a safe fallout limit is left—if, for military reasons, the U. S. is forced to begin atmospheric testing again?

Chmn. Glenn T. Seaborg of the Atomic Energy Commission (picture, left) admits that these questions are now under consideration by his agency. Says Seaborg: "The U. S. is still ahead of Russia in atomic weapons stockpiles and knowhow." "But," he continues, "if we continue to test indefinitely underground and the Russians test indefinitely in the atmosphere, they will undoubtedly pull ahead of us."

Seaborg's statement is based on scientific facts. Using underground tests of necessarily limited size, the U. S. can learn much about the nature of thermonuclear explosions. It can refine techniques, improve designs, and work on reducing the bombs' size and increasing their power. But it can't come up with many really significant developments without testing in the atmosphere.

Atmosphere testing, for example, is needed to probe the application of nuclear bomb technology to the problem of anti-missile defense. It's a vital factor in scaling up the size of bombs. And it's the next step in developing the controversial "neutron" bomb with its low heat and shock characteristics and high lethal power.

New sub-surface shots. The U. S. in recent weeks has set off at least four small (kiloton) devices in its underground test site in Nevada. In addition, Pres. Kennedy has approved a Project Gnome test shot to be made during the second week in December, in a tunnel bored deep into a salt bed outside Carlsbad, N. Mex. The White House has specifically stressed not only Project Gnome's fallout-free nature but also

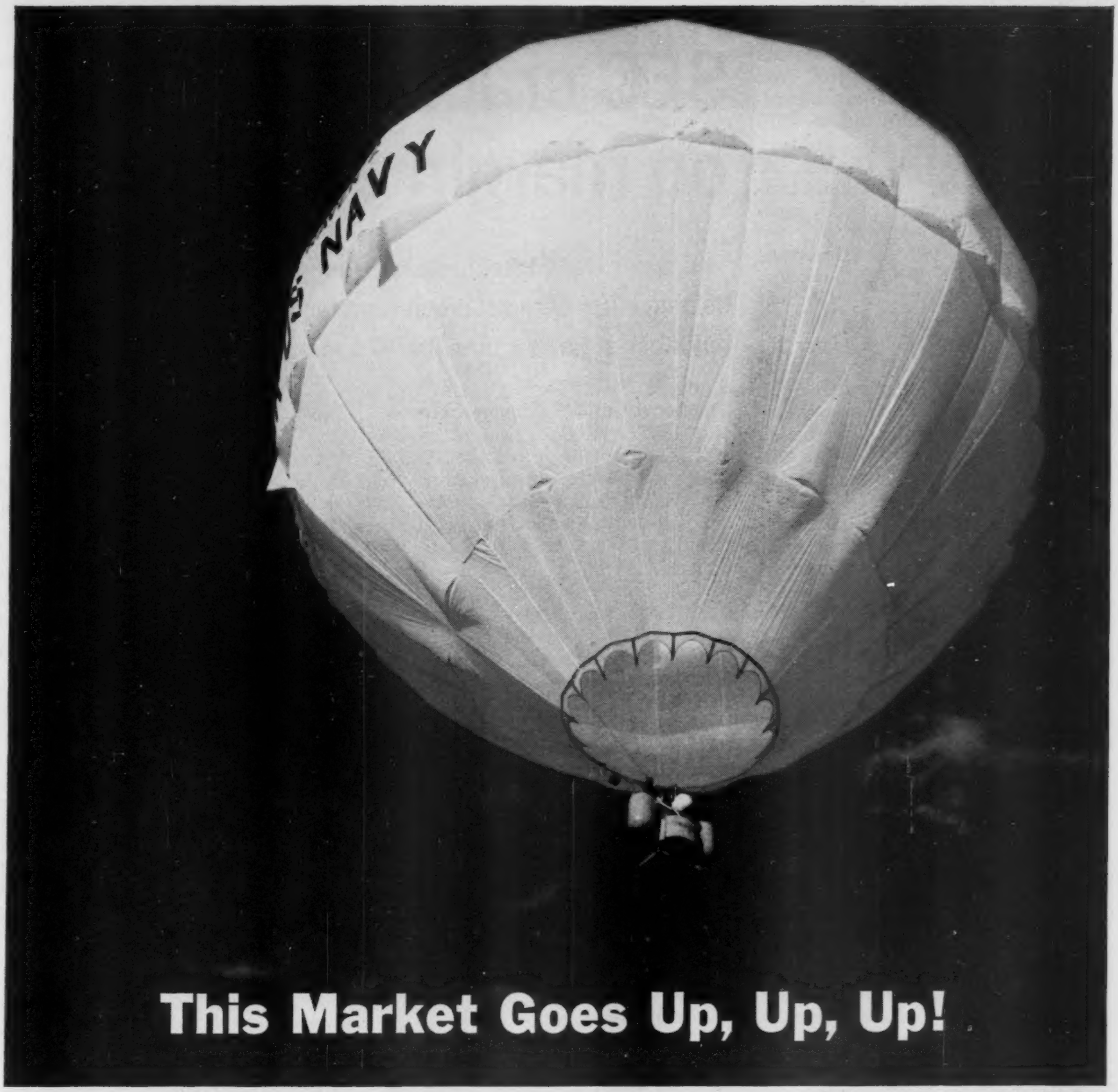


Photo courtesy of Raven Industries and U. S. Navy

LP-Gas is such a versatile fuel that new uses for it arise regularly—such as heating air for the experimental Navy balloon above. It is already high in demand for cooking, heating, air conditioning and scores of other home and commercial uses. Small wonder that among petroleum products, LP-Gas boasts one of the best sales surges—7 per cent last year alone.

Most LP-Gas is produced by wringing out natural gas before it passes into transmission lines. Sinclair Oil & Gas Company owns fully, or in part, 38 gas products plants which process its natural gas output to recover the valuable LP-Gas. It markets the fuel under the Sinclair "Truflame" trademark through distributors in 38 states, and last year rang up a *sales gain double that of the industry.*

As its natural gas output rises, Sinclair is adding gas processing capacity and extending LP-Gas distribution. By expanding its endeavors in growing markets, *Sinclair concentrates on more sales of the most profitable products.*

ASTM—Sinclair salutes the American Society for Testing and Materials. Founded in 1898, ASTM promotes research to develop specifications and test methods which aid all industries in maintaining product quality. The scientific work of its 10,000 members is multiplied many-fold to benefit all consumers. Its D-2 committee, which deals with petroleum products, recently completed specifications for LP-Gas which recognize this fuel's expanding uses.

Sinclair

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its peaceful character. The President has said that both the blast itself and the scientific instruments used will be described in full. And all interested U. N. members, including Russia, will be invited to send observers to the test site.

Pressure on U. S. Meanwhile, the pressure to resume atmospheric testing is building. Sen. Henry M. Jackson (D-Wash.), chairman of the Joint Committee on Atomic Energy's subcommittee on military applications, believes that the U. S. will have to make the decision to test above ground in the very near future. "We'll have to," says Jackson. "There can be no question that the Soviets are improving the sophistication of their nuclear warheads to the point that the U. S. lead in this vital military area may be in jeopardy."

Seaborg won't commit himself until all his monitoring evidence is in and analyzed. But he does admit that if the decision is made to resume atmospheric tests, the main factor probably will be military necessity. "Pres. Kennedy will make the decision himself," says Seaborg. "I suppose he will base it, in large part, on the results of the analysis of Soviet tests now being made both by the AEC and the Defense Dept."

Starting up. Small U. S. atmospheric tests could probably be restarted fairly quickly at the AEC's Nevada proving ground, where basic test equipment is already in place and ready. But survey teams say that it will take almost six months to ready the Eniwetok-Bikini proving grounds for megaton test blasts.

This puts additional pressure on the President, insiders are saying, to make up his mind on whether we must resume large-scale atmospheric testing reasonably soon.

Nearing the limit. One big danger, implicit in every day the President fails to move and the Soviets continue to test, hinges on the "prudent" allowable radiation fallout limit. Each megaton blast that the Russians set off eats into this margin. Some scientists are saying that the Soviets may be deliberately pacing their own atmospheric detonations so that the U. S.—and not the Soviet Union—will be placed in the position of having to break through the theoretically safe fallout limit in order to get military tests going.

Estimating what a safe fallout limit may be, scientists admit, is extremely difficult because the danger of radiation fallout to humans is both cumulative and genetic in character. A fair guess might be the equivalent of 150-200 megatons in a 12-month period.

SEC cracks down on margin evasions

Two major Wall Street brokerage houses are charged with helping customers get credit from factors, to buy stock at far less than the 70% margin requirement

The Securities & Exchange Commission this week launched an all-out attack on a major problem—the evasion of margin requirements by brokerage firms that operate in collusion with money lenders. It accused two big Wall Street houses—Schweickart & Co. and Sutro Bros. & Co., both members of the New York Stock Exchange—of helping their customers to get credit from factors, money lenders who demand a minimum of collateral but charge stiff rates of interest.

High-cost credit has been used by big speculators, such as Alexander L. Guterma, who is now serving a jail sentence for fraud [BW Feb.20'60,p170]. But factoring houses have been doing an increasing amount of business with small investors who are willing to pay the interest costs—which average about 2% a month—because they usually put up no more than 25% of the stock they purchase, compared with the 70% margin requirement in effect at brokerages and banks.

Backdoor financing. It isn't illegal for an individual to borrow from factors, who don't come under the Federal Reserve's jurisdiction. But it is illegal for a brokerage firm to arrange such financing for its customers.

In taking action against Schweickart and Sutro, SEC is apparently determined to put a stop to this backdoor type of financing. If SEC is able to prove its case, the firms could be put out of business—their activities as brokers could be suspended.

Denials. The two firms deny the charges. They are indignant that SEC gave them no advance warning of the action, and feel that the accusation that they illegally "arranged for the extension of credit" was ambiguous. Says Walter Florsheimer, senior partner of Sutro: "What does arranging mean? Does it mean giving a customer a phone number or showing him a newspaper ad? Or does it mean calling the factor for him?"

Actually, many customers' men use factors themselves. And they are likely to arrange an introduction for a customer if they think that the account would be profitable—or if they fear that the customer can get credit from a factor through another broker. Head offices of brokerages find it difficult to check up on their own salesmen.

Investigation. SEC, though, feels it can prove its case. It started its investigation last summer after two factoring firms, First Discount Corp., and an affiliate, Arlee Associates, Inc., were accused by Sutro of defaulting on loans. Sutro charged that Arlee owed about $1-million on stock purchases and First Discount about $4.5-million. SEC won a permanent injunction prohibiting the factors from further dealings in securities—and then poked deeper into the case.

According to SEC, Arlee purchased more than $13-million in stocks through Sutro from August, 1960, to May, 1961. SEC charges that Sutro's salesmen—it names 23 in its indictment—arranged financing for their customers with Arlee.

Florsheimer points out that it was Sutro's complaint that triggered the SEC investigation. As he puts it, "It is ironic that we are made the scapegoat in the financial community on the basis of information supplied by us to the SEC."

More to come? Florsheimer also observed that other "nationally known brokerage houses used the same credit facilities." Earlier this year, SEC indicated that four or five other firms might also be involved in making arrangements for their customers with First Discount and Arlee.

This week, SEC refused to comment on rumors that it was contemplating action against other houses. A spokesman said that the case against Sutro and Schweickart is the only one planned "for the present."

PROTECTION IN DEPTH

How it helps cut compensation costs

Knocking months off the time a man is laid up

Heavy lifting and falls account for roughly 40 per cent of the injuries treated each year at Liberty Mutual's two rehabilitation centers. Many of these are ruptured spinal discs which require an intricate operation.

Then comes rehabilitation. The program may last from six to eight weeks. Therapy includes heat, massage, swimming, workouts with barbells, chest pulleys, a bicycle machine — and scientific exercise of the back, legs or arms on an Elgin table. Without treatment like this it might be many months before a patient could go back to work.

Much of Liberty's protection in depth aims at stopping accidents before they happen. A staff of industrial hygienists, for example, help policyholders control losses from heat, radiation, dust or noise. Safety specialists help policyholders set up employee training programs and instruct supervisory personnel.

Last year Liberty's protection in depth was a vital factor in enabling Liberty's workmen's compensation policyholders to save many millions of dollars. To learn how the many services of protection in depth can help lower *your* compensation and public liability insurance costs, call the nearest Liberty Mutual office.

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Udall urges Kennedy to reduce the limit on imports of crude oil

Southwestern oil producers have about won their argument for more protection from overseas oil in order to shake out of the long slump in domestic production and exploration.

Pres. Kennedy this week is considering a recommendation by Interior Secy. Stewart L. Udall that he reduce the amount of overseas oil entering the U. S., starting about Jan. 1. Udall also informed the Independent Petroleum Assn. of America that he favored clearing up some unspecified ambiguities in the present import rules.

Meanwhile, a rather modest cut of some 50,000 bbl. per day is expected about Nov. 15 in imports of crude and products other than residual oil east of the Rockies. IPAA has asked for a cut of 200,000 bbl. per day in imports, now running around 746,000 bbl.

Virtually no possibility is seen that the producers will win a limit on imports from Canada into the upper Midwest.

One of Udall's suggestions that Kennedy is expected to approve is that less reliance be placed on importing history in fixing individual quotas. This would mean that some major coastal refiners would get less cheap foreign oil.

FPC lowers price ceilings on Louisiana gas despite own anti-regulation talk

The new leadership of the Federal Power Commission has followed up its anti-regulation sweet talk to the natural gas industry with some stringent regulating. The agency has rolled back the ceiling price by 2¢ per 1,000 cu. ft. on gas going on the market for the first time from southern Louisiana. The lowered ceilings are about 19¢ where a state tax must be tacked on and 19.5¢ on offshore federal lands.

Previous higher prices allowed by the agency in the rich Louisiana fields have been attacked successfully in the courts as out of line. Now the agency has a proceeding under way to set formal maximums, but the industry had hoped—vainly, as it turned out—that FPC would stick to the old ceiling in the meantime. Earlier, FPC Chmn. Joseph C. Swidler had said he does not favor public utility type regulation for the gas producers.

Continental Air Lines proposes new economy class at a 25% saving

Continental Air Lines, Inc., has joined the rush for fare bargains [BW Aug.12'61,p32] with a plan for a brand new, low-priced, no-frill jet economy service. If the Civil Aeronautics Board gives expected approval, Continental will inaugurate the new service Dec. 1.

Continental will rejigger seating arrangements from the present 44 first-class and 76 coach seats to 28 first-class, 36 coach, and 75 seats in the new economy section. **Passengers there will sit three abreast in plastic seats, will get no meals, but will save about 25% on the fare.** They will be able to make reservations.

If the economy class goes into effect, the 10 other domestic trunk lines may well have to tag along in some way. This would upset their efforts to downgrade present coach service in an effort to squeeze business travelers up into the more profitable first class.

Split over merger policy deepens between Justice Dept. and big agencies . . .

The split over merger policy between the Justice Dept. and government regulatory agencies, first brought to light by bank mergers, grew a little deeper this week.

The Justice Dept. filed strong antitrust objections to the proposed merger of the Seaboard Air Line and the Atlantic Coast Line railroads, now before the Interstate Commerce Commission, which has been friendly toward rail mergers.

And Chmn. Alan S. Boyd of the Civil Aeronautics Board went so far as to tell airlines that they are not moving fast enough toward merger. Unless they speed up, Boyd said, he would favor the CAB's pressing merger recommendations of its own.

The basic intragovernment split lies in the fact that the agencies regard antitrust as only one aspect of a merger's desirability, while for the Justice Dept. it is the sole consideration.

. . . But procedures are eased by Fed

The Federal Reserve Board this week finally gave in, at least part way, to critics of its procedure in handling bank merger cases. It has changed its rules to make its decision-making process more public, and to give the Justice Dept. and other parties who might object to any merger more time to initiate court action against it.

From now on, the Fed will announce its decision after each action on merger applications, and also give the votes of its members and reasons for its action. Previously, the Fed's reasons were given only in its annual report—except on rare occasions, such as the Manufacturers Trust-Hanover Bank case.

Each merger approved by the Fed will not become effective for seven days. This will give time for Justice or other dissenters to draw up court suits aimed at blocking the merger. Twice within recent months Justice has failed to get last-minute restraining orders against pending mergers, one reason being that the banks quickly consummated the merger. By commingling their funds, the banks made it hard for Justice to get any divestment order. Public hearings also will be held, unless otherwise ordered.

Washington outlook BW

November 4, 1961

For Kennedy: another year of change

Both in style and substance, the Kennedy Administration has been undergoing a period of rapid change. And there's more to come.

A year from today the Administration will differ in marked degree from what it is today. Some of these changes can now be foreseen. Other ideas being discussed will be put into storage, to be revived later. What survives —and is postponed—will go far toward setting the business climate for the rest of Kennedy's term.

The changes are all part of the education of John F. Kennedy, first in the fancies and then in the hard facts of the Presidency.

This education began a year ago next week when Kennedy defeated Richard M. Nixon at the polls by the narrowest margin in history.

For three months, before taking office, he tried to put together the kind of Administration he had promised—the kind he thought the country needed. He nursed the idea of a fast-moving government, one bursting with confidence, with a premium on action, lively with new ideas, built around a concept of personal leadership.

But after nine months of actual operation, he's running a slow-moving, cautious Administration marked by indecision on some key issues.

Where policy is undergoing transformation

Here are some of the crucial areas affected by change:

Personal leadership. Just this week Kennedy announced that from now on he would meet regularly, every second Thursday, with both his Cabinet and the National Security Council. **After Cuba, Kennedy began to drop his concept of one-man leadership.** The grueling Berlin crisis killed the idea altogether. The Cabinet and the National Security Council are now closer to what they were under Eisenhower.

Budget discipline. The budget is back at the center of policymaking and domestic politics. **Kennedy has ordered his Cabinet to cut outlays, reduce programs, and strive for a black-ink budget in fiscal 1963** (page 27). Surpluses will not be pursued with the same ardor as under Eisenhower. But the tug of fiscal restraint will be felt more in the future than since January.

Defense. The status quo will be defended from now on. **U. S. power will be stressed, not weakness.** Kennedy is refusing to spend $200-million in the current fiscal year for more B-52s and for advanced weapons systems on the grounds that our power is sufficient. Again, this is returning to a posture that Eisenhower made familiar. Congressional demands for more arms spending will mount, but will not prevail.

Businessmen, taxes, economic planning . . .

Relations with business. Kennedy will keep trying to convince businessmen that he is fundamentally "pro," not "anti." **At best, this cannot be more than an uneasy truce, however.** The Justice Dept. has enough antitrust moves in mind to keep the business community edgy even if all the other issues could be resolved.

Tax reform. It's still talked about but will be downgraded. Depreciation will be liberalized, along lines of the recent textile case. The Administration is ready to start again the fight for an 8% tax credit for new plant and equipment expenditures. **But chances recede for a fundamental overhaul of the whole tax system.**

Economic planning. The Administration would like to see more long-

range thinking by management and labor on such problems as wage trends, prices, and growth in a context of the country's international problems. **The idea is being discussed in the President's Labor-Management Advisory Committee and by a committee of the Business Council—at the request of the Council of Economic Advisers.** There are no proposals for anything as formal as the French system of economic planning, which has just laid out a 5.5% growth rate for the next four years [BW Oct.28'61,p91]. But the ideas of the Administration are creating worry among business leaders and union chiefs.

Kennedy being pushed on shelter stand

Though Kennedy began talking last July about the importance of civil defense, **he declines to push a strong program for home fallout shelters.** At press conferences, Kennedy endorses the idea but with no real enthusiasm. He admits he is not building shelters at the various residences he occupies at Hyannis Port, Palm Beach, Newport, or Middleburg, Va.

Civil defense chiefs, though, keep pushing home shelters. **They are chafing at lack of White House support** and hope to get it in the form of a letter next month from Kennedy. They want the letter to accompany a new booklet on radiation and shelters. They've got no promise as yet.

The White House staff is split on the subject. Some advisers, including McGeorge Bundy, who is Kennedy's top aide for national security matters, opposes a drive for shelters. He's afraid people who build them will wind up thinking, "We're safe, let the bombs fall." Some advisers like the idea of shelters, but want to push it at a time when the economy needs a stimulant.

In three contests, only one test for conservatives

Out of next week's three important elections, one will throw light on the question that intrigues professionals in both parties—the real vote-getting appeal of all-out conservatism.

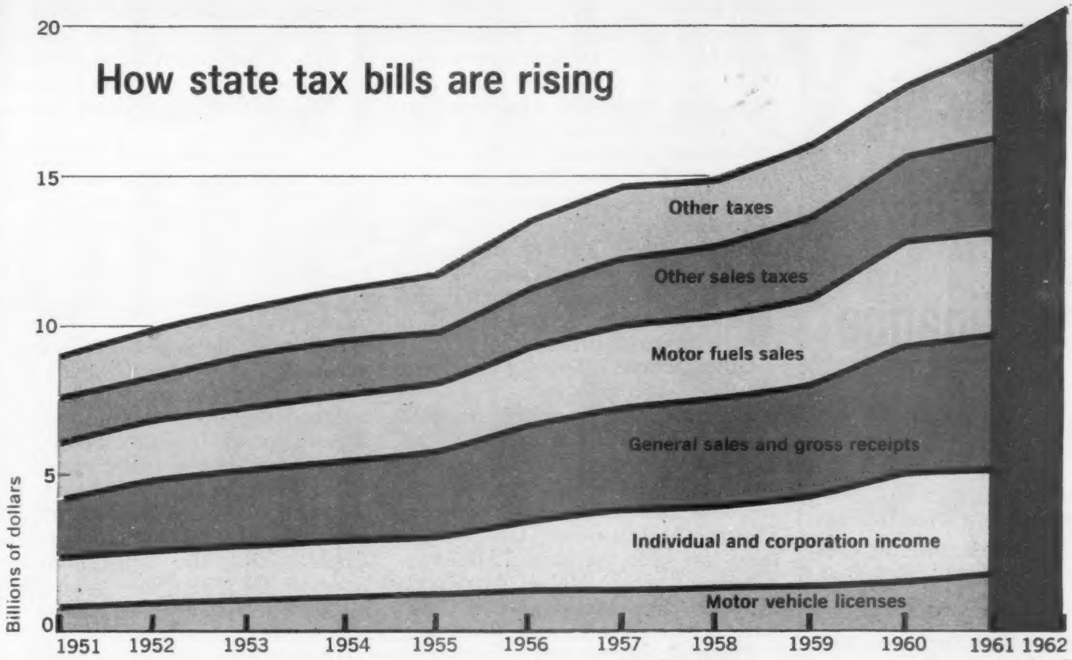
For mayor of New York, liberal Republican Louis J. Lefkowitz opposes liberal Democrat Robert F. Wagner, the incumbent. In the race for governor of New Jersey, moderate James P. Mitchell for the Republicans opposes moderate Richard J. Hughes for the Democrats.

In San Antonio, Texas, however, conservatives and liberals are meeting head-on in a special Congressional election. **State Sen. Henry B. Gonzales, a member of the Americans for Democratic Action, and a Democrat, is being challenged by John Goode, Jr., a follower of Sen. Barry Goldwater's type of far-right conservatism.** San Antonio is normally Democratic, and Gonzales is a local favorite, particularly with those of Mexican ancestry and Negroes. **If Goode should beat Gonzales, or even come close, it will be taken as a sign of the rising strength of conservatives** where they are given a clear-cut choice.

Notes on two campaigners

Pres. Kennedy: His decision to campaign for Mayor Wagner in New York and for the Democratic candidate for governor of New Jersey, reflects the lessened tension over Berlin. Earlier Kennedy told aides he would not leave the White House for purely political journeys until the crisis lessened.

Former Pres. Eisenhower: His trip to Texas on behalf of GOP Congressional candidate Goode lacked the fire of some of his recent appearances. He softened his attack on Kennedy, urged nonpartisan support for foreign policy. It wasn't the all-out attack Goode's supporters had hoped for.



Data: Census Bureau, 1962 estimate by Tax Foundation

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REGIONS

Big new bite on state taxpayers

Laws adopted in 1961 add nearly $1-billion to tax bills, on top of $1-billion added yield from old taxes —even though only a handful of states vote major changes

New tax legislation adopted this year in more than half the states will take a total additional bite of nearly $1-billion out of the pockets of taxpayers in those states. The changes are in the form of new taxes, increased rates, or broadening of the base of existing taxes.

On top of that, the yield of existing taxes at present rates in all the states will increase by another $1-billion. Those were the estimates made this week by the Tax Foundation for the current fiscal year.

The double increase will push the states' total tax take for fiscal year 1962 to $21-billion, the foundation calculates (chart).

The $2-billion jump would be the biggest year-to-year gain since the take rose from $15.8-billion in 1959 to $18-billion in 1960. That also reflected an estimated $1-billion extra bite resulting from new tax legislation in 1959—the last time nearly all legislatures held regular sessions.

Fewer new laws. Though the added take from new tax legislation comes to the same figure, there were fewer new tax laws this year than in 1959. Much of this year's gain can be attributed to major changes in two states—Texas and Illinois.

One explanation for the smaller amount of new tax legislation this year may be that the heavy 1959 activity, together with greater federal aid, may have allowed the states to raise enough revenue—at least temporarily—to catch up with spending needs. For the first time in years, according to the Census Bureau, the states' general revenues exceeded general expenditures in fiscal 1960—$27.4-billion to $27.2-billion.

Of the 47 legislatures that held regular sessions this year (all but Kentucky, Mississippi, and Virginia), 26 acted to boost revenues; in 1959, two-thirds did so. Eight others slightly reduced tax rates or repealed minor taxes. Thirteen took no significant tax action.

Major changes. Only a handful of states voted major tax laws:

Texas became the 36th state—the 12th since the war—to adopt a general sales and use tax. After a long fight, the 2% tax became law without the governor's signature. It is expected to yield $160-million a year. (Nebraska remains the only state without either an income or sales tax.)

Illinois' big increase results from a rise in the sales tax rate from 3% to 3.5% (Illinois cities can tack on another .5%), a broadening of the base, and a new 3% tax on service transactions.

West Virginia became the first state since 1937 to adopt a personal income tax. It had imposed one in the 1930s, but dropped it 20 years

ago. Thirty-three other states levy such a tax.

New Jersey adopted a personal income tax limited to New Jersey residents who work in New York and New York residents who work in Jersey. The constitutionality of this will probably be tested in the courts, however. For one thing, the two states have no reciprocal agreement to take care of the question of double taxation, thus leaving taxpayers open, at least theoretically, to that possibility. For another, there's the question of a tax limited only to a certain group of citizens.

Other actions. Here's a rundown of other new legislation:

Sales tax. Utah raised its rate from 2% to 2.5%, Connecticut from 3% to 3.5%. West Virginia continued until June 30 a temporary increase in its consumer sales tax from 2% to 3%. Ten other states broadened the sales tax bases: Arkansas, Florida, Kansas, Maine, Maryland, Missouri, New Mexico, North Carolina, North Dakota, and Wyoming.

Personal income tax. Alaska and New Mexico raised rates, Delaware created new brackets and rates, Minnesota continued a temporary surtax and passed a new one. Four older income tax states went to withholding—Minnesota, Missouri, New Mexico, and Oklahoma—and West Virginia adopted it for its new income tax. New York, on the other hand, cut payments due Apr. 15 by 10%.

Corporation income tax. Connecticut and New Mexico raised rates. Minnesota continued its temporary surtax and enacted another.

Cigarette tax. Sixteen states raised rates by 1¢ to 4¢ a pack: Alaska, Connecticut, Delaware, Idaho, Illinois, Maine, Maryland, Minnesota, Missouri, Nevada, New Jersey, New Mexico, Oklahoma, Washington, West Virginia, and Wisconsin. (This leaves Arizona the only state charging 2¢). Alaska and New Mexico went to 8¢, the highest state rate (levied also in Louisiana, Montana, and Texas). Michigan, however, cut its rate from 6¢ to 5¢.

Gasoline tax. Missouri raised its rate from 3¢, the country's lowest, to 5¢ a gallon. Alaska went from 7¢ to 8¢, the country's highest. New Jersey, Pennsylvania, and Washington went up by 1¢ to 2¢.

Continuing battles. A deeper bite is still possible in Wisconsin and Illinois. In both states, Democratic governors and Republican legislatures have been at odds.

The Wisconsin legislature reconvened this week, after a three-month recess, to raise money to balance the $500-million budget for the new biennium and, possibly, to provide property taxpayers some relief. A committee named by Gov. Gaylord A. Nelson had urged a 2% sales tax and a rise in the income tax (adopted in 1911, before the federal income tax amendment).

Gov. Nelson plumped for the income tax rise only. But the legislature killed his bill and passed a 3% sales tax—which he vetoed. Now, after conferences with Republican leaders, Nelson offers a compromise: a selective 3% sales tax and a slight income tax increase.

In Illinois, the legislature is meeting in special session to weigh Gov. Otto Kerner, Jr.'s requests for more increases on top of the big package already voted. He wants the new tax on service transactions raised to 3.5% (same as the sales tax), the corporation franchise tax tripled. Republicans want to see first how much revenue the earlier increases bring in. Both increases seem likely in time, but chances at present are slim.

There's also talk of an eventual general overhaul of the Illinois tax structure—including a state income tax, advocated by Democrats.

Changes ahead. To the Tax Foundation, such things as the Wisconsin sales tax proposal, the Illinois income tax talk, and broadening of the tax base in many states suggest the need for major tax changes.

"State governments will soon find," the foundation said in its October Tax Review, "that they can no longer patch up their existing tax structure with piecemeal changes . . . and that there are fewer and fewer ways to put off major decisions on expenditures and taxes."

Income tax states will be forced to examine sales taxes, and sales tax states to look into income taxes, the foundation added, unless expenditures can be controlled. States depending on both are likely to be thinking hard about higher rates and broadened bases.

While no one expects anything but a continued rise in state spending, the Federal Reserve Bank of Chicago noted in its October issue of Business Conditions that "the period of critical pressure on state budgets may be passing." It found a ray of hope in the coming shift in population patterns away from the recent big growth of the younger and older groups, which multiplied school and welfare needs.

In the years ahead, there will be a faster rise in the working-age group, and a corresponding expansion of tax collections. At the same time, the numbers of young and old will grow less rapidly. **End**

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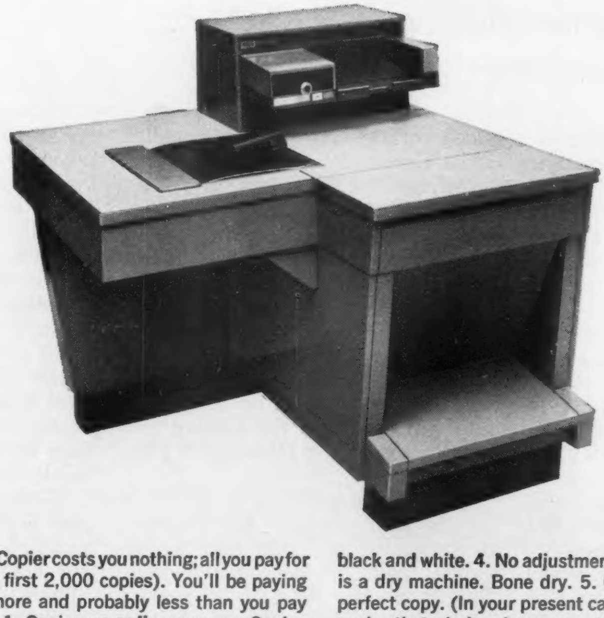

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SPECIAL REPORT—PART II

Far from achieving Communist ideals, the Soviets have...

differences between classes . . .

Soviet Union: how it lives

The average comrade has never had it so good. Even so, he has a minimal subsistence, few luxuries, and in every case his needs are subordinate to those of the state

After 44 years of the mightiest revolution in history, a new generation has appeared in the Soviet Union and grown to maturity. Another is coming into adulthood, with a third soon to follow. For 216-million persons, the Revolution today is the status quo.

What has the Revolution done to them? What have they done to it?

After the longest exposure to police rule in this century (and in modern history, if you count the czars), the Soviet citizen today, almost miraculously, has self-respect, ambition, and national pride. Although the Soviet system offers not all he would like, he accepts its ways.

But particularly about the Soviet Union, it's dangerous to generalize. The people include more than 100 nationalities, from Azerbaijanians and Armenians to Ukrainians and Uzbeks, with Russians accounting for about half the total and—at the scale's other end—one nationality in the Caucasus forming only a single village.

New forces. New, strong, and meaningful patterns are shaping up in the Soviet crucible. Some reinforce the Soviet system. Others are testing it. All throw on it some light.

The Communist Party has succeeded in winning enthusiastic recruits among the younger Soviets. And almost certainly, Soviet leadership will adhere in the coming decades to something close to its present character.

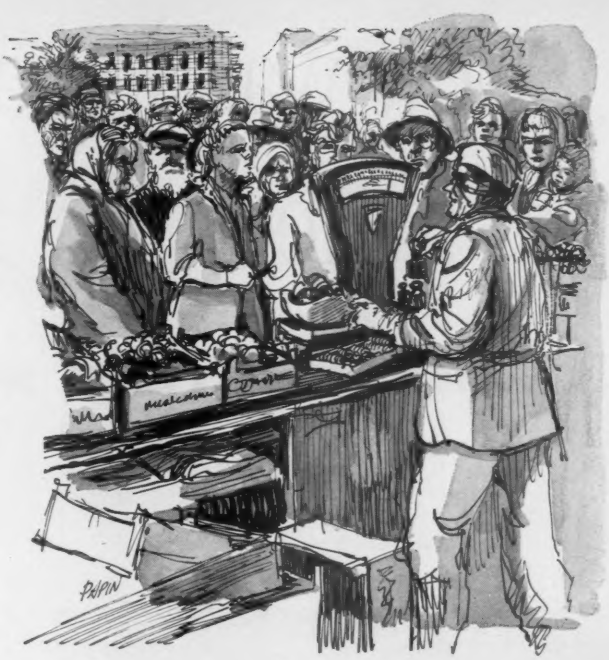
That character has changed little in the past, despite Khrushchev's downgrading of Stalin and the so-called cult of personality—highlighted by the decision to remove Stalin's body from the mausoleum on Red Square. The rule still comes down from the top.

While the old Bolshevik is fading away, younger Communists are equally disciplined and devout. They consider theirs is the destiny of mankind, that capitalism will—and must—go. Schooled and pragmatic, they are a tough, talented lot, far more likely to accelerate than slow down the Soviet Union's momentum.

Better life. At the same time, yesterday's sacrifices have begun to yield returns in the form of a much better life than the Russians have ever known. While housing still is inadequate, new apartment buildings are going up. Many Soviets already have moved in.

Clothing, too, is improved. A man can buy a shirt not only with the right sleeve and collar sizes, but in the color he wants. In some consumer durables—wristwatches and cameras, for instance—production has reached the point where new marketing techniques are needed to move them—installment credit, even advertising.

shortages such as housing . . .



some private enterprise

Status symbols. A kind of creeping Westernism has set in. The nation has a growing elite class of relatively affluent academicians and executives. The status symbol has arrived: clothing and phonograph records somehow obtained from Western European capitals, for instance, or an automobile (to really rate). Lipstick now is commonplace. Even older, sterner women use a touch of makeup. Jazz is O.K. now, officially. ("It comes from Odessa.")

Whetted appetite. Yet all is not well. Among whole segments of the population, cynicism and pragmatism have replaced the idealistic fervor that kindled the Soviets in the 1920s and 1930s. Most Russians tend to pooh-pooh the Kremlin's glowing promises of a better life, believe what they see—and beat the system, if they can, to get what they want.

Welling up is a hunger for the good things. The Soviet appetite has been whetted by increased contact with the West—cultural exchanges, tourism in the Soviet Union, exhibitions from abroad. The American exhibition of 1959 is still talked about. As the Soviet standard of living has risen, so has the pressure for even more improvement. Men with better shoes want better suits. Families with new apartments want stylish furniture.

Nightmare. There's still an air of intimidation. While part of the secret police apparatus is in desuetude, little of it has really been dismantled. Khrushchev called for Beria's death; but Khrushchev is 67. The nightmare days, not easily forgotten, could come back. An indication that Russians fear the return of terror is their reluctance, still, to have much more than official contacts with Westerners—except possibly when they meet in the West. Informal relations are stiff, awkward.

While the secret police are less prominent, the Communist Party is more puritanically importunate than ever. Like a fussy granddame, it calls citizens down for improper behavior and "unsocialist" attitudes, hails them into comradely courts (which, although extralegal, actually can impose fines or "administrative" exile) for some failing such as showing up late at the factory or living suspiciously beyond their means. From the Young Communist League, the pool from which the party chooses its members, "vigilantes" roam the streets in bands on the lookout for "parasitic" citizens.

Labor shortage. The government's substitutes for Stalin's forced labor are milder—but grating. Under Khrushchev, the state has resettled hundreds of thousands of Russians in Kazakstan, Siberia, and other hinterlands under development in the east, north, and south.

To meet the labor shortage, the Kremlin is yanking students out of school to work machines and plows. And to guarantee a disciplined citizenry in the future, the government plans—despite protests from just about everyone—to put all youngsters into boarding schools from first grade onward.

Criticism grows. Frustration is still mounting, if a judgment can be made from random comments by Russians—and a few letters published in the press criticizing a life in which a man reads in the newspapers about Luniks, then goes home to his wife and three children, a grandmother, and son-in-law, all living in a two- or three-room apartment. One of the most poignant lines in the late Boris Pasternak's condemned novel, Doctor Zhivago, was: "Man is born to live, not to prepare for life."

I. The gap between the classes

Most Russians—not all—get a lustreless deal.

In exchange for guaranteed employment, pension, and other benefits, the average citizen accepts minimal subsistence and a limit on his freedom of choice. He lives regimented, subordinate to the state.

But there's a great gap between

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Siberian frontier comes alive with mining, farming, industry—an ambition of Stalin, an achievement under Khrushchev

society's elite class and the ordinary workers. Such highly trained—and valuable—persons as professors, scientists, and factory directors earn much more than most Russians. Writers or composers can become truly wealthy from royalties. Although there is much Soviet hoopla about the scheduled ending of the income tax, it takes a maximum of only 13%.

The privileged. Soviet rank has privileges in the form of better housing, perhaps a riverside summer dacha, often a car—and maybe, if the political credentials check out, an occasional trip to the West with some delegation.

Children from influential families have an easier time getting into universities and institutes, and into better jobs after graduation. In any event, the elite's offspring have a good chance for an affluent future. The Soviet Union doesn't tax inherited property. (It also has an agency that encourages purchase of life insurance.)

Have-nots. For workers, however, wages are low. Quite a few laborers in service industries, such as janitors and street cleaners, earn the minimum wage of 40 rubles a month (about $44). Wages in heavy industry run from about 80 to 100 rubles monthly for unskilled workers to about 120 for skilled labor.

Food takes almost half the average family budget, and clothing another big chunk. While the queues for these essentials are shortening, at least in some cities, the ordinary worker has a long wait for new housing and other hard-to-get items. A car takes three years—or more—of waiting.

Housing is scarce. Housing is still in short supply. Those Russians in old housing—and they still are the majority—often share a kitchen and bathroom with several other families. Frequently, there's no running water in the entire house.

Even those workers who get new housing soon have some complaints. A family of four commonly gets only two rooms. Maintenance is inadequate, often resulting in failure of elevator service, clogged garbage chutes.

Little choice. The Soviets are nowhere near the point in housing where a worker can have much choice as to where he lives. There's no such thing, for instance, as apartment want ads in the newspapers. In some cases, housing is provided by the factory—just as it might be in a company town in the U.S. In other cases, housing is assigned by the local Soviet.

If you don't like your apartment, you can try to find someone willing to trade. Otherwise, you're forever stuck with it.

Since housing usually is arranged by the enterprise, the worker must give up that new flat if he changes jobs—and, of course, that means making sure he'll do as well at the new factory.

Red tape and consumer shortages plague Russians but . . .

Tied to the job. Although Russians today can change jobs and even cities more easily than before, they still are tied closely to the job—not only through housing but socially through their trade unions.

Change is a major red-tape project. At his new job, the worker must show his internal passport and record of employment, with an endorsement from his previous employer.

By now, the Soviet citizen should be inured to red tape. His life is plagued with the country's bureaucratic obsession with documents and official procedures. Just to buy a railroad ticket, purchase fuel, go on holiday, or even place children in a nursery, the Russian goes through a bureaucratic ritual.

Beyond this, the Soviet citizen is insulated from news developments at home and abroad that might directly affect him. The Soviet press, for instance, kept mum when Khrushchev resumed nuclear testing.

II. Comrades get a few breaks

But the citizen gets some breaks.

Rent is low. Imposed on a sliding scale according to the tenant's income, rent for a highly paid worker will exceed that of a less skilled person for the same accommodation. At the lowest, a pensioner pays a monthly rent of 11 kopeks per square meter. Since the average Russian occupies less than 10 square meters, this would amount to about $1 a month. Maximum rent is about 6% of income.

In addition to rent, the Russian gets a break in government-subsidized social services. Medical treatment is free, although patients must pay for medicines.

Subsidized vacations. Workers also generally get a month's vacation annually. Periodically—say, once in four years—an employee is given a pass by his trade union to a "rest home" (a Soviet-style resort) or, if ill, to a sanitarium. The trade union pays some 70%.

Subsidized vacations are fine—but normally a husband and wife have to vacation separately because accommodations are in men-only or women-only establishments, with three or four strangers customarily thrown together into one room.

Free schools. Virtually all children between the ages of nine and 14, whatever their father's income group, belong to the Young Pioneers, which serves as a training ground for the Young Communist League, which in turn trains the most enthusiastic youth for Communist Party membership. Each summer, the Young Pioneers go away to camp for a month. The cost to parents is about nine rubles a child, while the state pays about 43 rubles.

All children are entitled to free schooling, although they must buy many of their own books. Those who qualify for higher education are paid

. . . there are some compensations such as free medical care

Workers get paid vacation trip to resort every four years

if their marks are good enough. Higher schooling is open equally to all qualified youth regardless of sex, family, or place of residence.

III. How 'have-nots' beat the system

Throughout the Soviet Union, Russians are finding ways to beat the system, to get—somehow—that something special otherwise unavailable in the Soviet welfare state. "Bourgeois elements," Communist officials call these shenanigans.

There are a lot of bourgeois elements in Russia.

Item: In their spare time, doctors and dentists are carrying out thriving private practices with the more highly paid citizens who are not satisfied with outpatient clinics and young female doctors.

Item: Some of the nation's better attorneys are under fire in the Soviet press for accepting bribes from would-be clients eager for their particular "state" services in court.

Item: Construction workers have been discovered building private homes—for fees—with materials taken from the state.

Unorthodox deals. For many Soviet citizens, cradle-to-grave security obviously is not enough. They want embellishments, and intend to get them. In some cases, the state does not object—at least, not strongly. The pressures from below might then get too strong.

Look at three cases:

▪ Antonina K. is a war widow who runs an electric appliance store selling television sets and radios. She reached her present job after several years as a salesgirl in GUM, Moscow's big department store.

Like almost all Russians, Antonina has a monthly and annual plan to fulfill. In her case, that's easy because TV sets and transistor radios are in short supply.

In off hours, Antonina likes to indulge her taste for good books and records, plays and concerts. For customers who can help her get a good theater seat—or a scarce book or record—Antonina expedites delivery of a TV set or some other short item. It's a Soviet-style "I can get it for you wholesale."

▪ Alexander Novikov, on the other hand, can't get anything for you. He's an operator at the Novokuibyshev Oil Refinery and about as close as possible to being the ideal Soviet Man. Even so, he has a sideline.

Basically, life is pretty good. As a skilled worker, Novikov gets a base pay of 120 rubles, three times the minimum wage. With bonuses, he averages 155 rubles. His wife, like most Soviet women, works. As a housepainter fourth class, she averages 75 rubles a month.

The Novikovs have good quarters. When construction of new housing began, Novikov put his name on the list at the trade union, which is in charge of distribution on the basis of seniority and other factors. Novikov has heard of officials guilty of favoritism in housing assignments, but in his case he got on schedule a three-room apartment.

Novikov dreams of owning a car. But a two-door Volga sedan sells for 3,000 rubles, or about 13 months of the total family income. Undaunted by the long waiting list for cars, Novikov is saving for an auto—by growing vegetables in his spare time on a "weekend" plot of one-half acre and selling them.

▪ Normally, no one outside a collective farm north of Kiev ever would have heard of Yekaterina. She's an ordinary peasant. Yekaterina, however, makes her way to Moscow twice a year. And this year she was cited in the Soviet press for conduct unbecoming a socialist.

The trips got Yekaterina in trouble; yet they only reflect the Soviet Union's chronically confused distribution system. The problem is this: While some cities often have oversupplies of certain consumer items, such as men's suits or women's shoes, smaller cities in, say, South Russia, may have no stock at all. At the same time, lack of refrigerated transportation means Muscovites chronically are short of fresh fruit and vegetables.

Into this breach steps Yekaterina and many other farmers with their produce from tiny private plots. When Yekaterina goes to Moscow, she carries two bags full of tomatoes and a suitcase of fresh wildflowers.

She buys a roundtrip ticket to Moscow, climbs on a Tu-104 jet airliner, and two hours later clambers off at Moscow's Vnukovo Airport.

Once downtown, she proceeds to sell tomatoes for four rubles a kilo and wild flowers for five rubles a bunch. The proceeds pay for the plane ticket and buy a bolt of cloth.

More typically, however, farmers simply ride a train or bus into the nearest city and sell on the free market. This constitutes an important part of their family income—and an important part of the national food supply, since nearly one-half the nation's vegetables come from privately cultivated plots.

IV. Iron Curtain yields to Madison Ave.

The West's impact on Soviet society goes beneath the surface.

To be sure, the Western veneer

President, Case Institute of Technology
Former Director, National Aeronautics and Space Administration (NASA)

Dr. T. Keith Glennan tells why he feels the best location in the nation is better than ever

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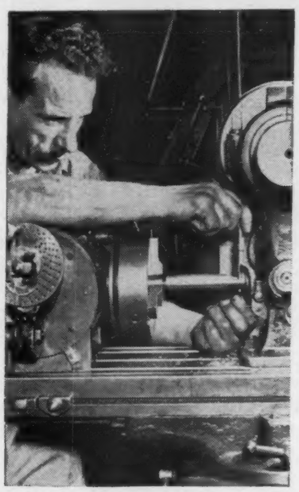

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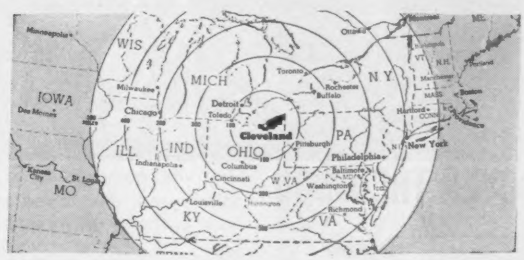

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THE CLEVELAND ELECTRIC ILLUMINATING COMPANY SERVING

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Schoolchildren compete for high grades to win admission to universities.

is widening, particularly in the big cities. Neon signs in Moscow flash messages such as "Fly—It's Fast, Economic" and "Watch Traffic." Young women are wearing the ponytail hairstyle. At peak hours, Moscow has traffic jams. And at that city's Peking Hotel, a Soviet cocktail lounge, tucked away in the mezzanine, serves cloyingly sweet concoctions under such names as "People's Future."

Western techniques. There are some profound applications of capitalist techniques. The Soviet consumer sees them in marketing.

Once considered a degenerate bourgeois trick, advertising is coming into use (if not vogue). In Moscow, each of the two leading department stores—GUM and TsUM—advertises in the evening papers. An advertising agency makes up the copy.

Another indication of an embryonic buyers' market in some goods is the advent of the vending machine—a kopek-operated dispenser of a wide range of liquids, from Eau de Cologne to beer. Beverage customers drink from a single glass.

Customers in remote areas can order from a state mail order service any of several thousand articles, paying the retail price, plus mailing fee. In cities, the self-service store is cropping up.

In those few consumer durables in which there has been overproduction, a Russian can buy on credit, with 25% down and six months to pay (at 1% to 2%) interest—if he presents the proper credentials.

Although Soviet women's clothing leaves much to be desired, fashion shows are held at GUM, a good beauty parlor does a thriving business, and many young women, after purchasing the cloth, will make their

own dresses after a Western pattern.

Capitalist tools. Traditionally, of course, the Russians never have hesitated to borrow from Western designs in machinery. Even automobile dashboards are direct copies from earlier Fords and Chevrolets.

Now, Khrushchev is urging even further adaptation of Western methods. At the recent Communist Party Congress in Moscow, he told Soviet planners and managers to make greater use of such capitalistic tools as profitability, credit, and investment return.

"We should not scorn useful foreign experience," he said, "and should critically adopt all technically and organizationally valuable points available in the West."

V. Big Brother is listening, too

Under Khrushchev, the Soviet people feel a little freer in speaking their mind than under Stalin. But don't confuse this with freedom of speech. For Soviet rules of argument are strict—and narrow.

Under the system of "democratic centralism," people theoretically can offer differing opinions on a problem until a decision is made. The Soviet government realizes that some dissension must be allowed and debate encouraged if the nation is to progress, and not stagnate, in the face of constantly changing conditions.

So there is some give—a certain amount of carefully controlled debate in the press, in party plenums, and in industrywide meetings.

No one is allowed to aim criticism much higher than one step above himself. And care is taken not to "confuse" the public by playing up dissensions too much.

Range of debates. The basic rule is that you can criticize the implementation of policy—but not policy itself. The head of a regional economic council, for example, isn't allowed to challenge a basic government decision on allocation of resources among various industries. But he can argue that a textile factory in his area should have higher priority on men and materials than it's getting.

Debates have ranged from whether alternating or direct electric current should be favored, to whether auto production, limited as it is (now about 140,000 units yearly), should go to private owners or state-run rental agencies.

Power issue. One running debate that has fascinated foreigners, perhaps because Khrushchev himself received in it an indirect challenge, has centered on new power stations.

When the Soviets took control after the Revolution, Russia's small power capacity was based mostly on coal-burning thermal stations. Hydro stations accounted for less than 2% of total output. In the four decades that followed, hydro projects got most of the attention until, in the late 1950s, they were generating almost one-fifth of all of Russia's electricity.

Despite grandiose plans for developing Siberian rivers, Khrushchev and his planners now are switching back to emphasis on thermal stations. That's largely because they are less capital intensive. The existing 80-20 ratio between thermal and hydro is to be maintained until 1980—and probably beyond.

Said Khrushchev in a speech in November, 1959: "In our economic competition with capitalism, the question of time in which we accomplish economic tasks is vital . . . at the present stage, thermal stations are better because they go into operation faster."

The press, however, debated this decision, also challenged cancellation of work on the big Krasnoyarsk Hydrostation. The grand old man of Soviet economics, Stanislav Strumilin, argued that Krasnoyarsk should be completed. Some central planners in the power field supported his view.

The upshot is that Khrushchev has softened his stand, and work on Krasnoyarsk is proceeding.

Farm utopia. By far the touchiest debates concern the peasant and farming—an area of Soviet life in which Khrushchev considers himself an expert.

Farms should be run like factories—according to the Soviet ideal—with workers receiving regular salaries and living preferably in apartments just like their city brethren. Thus, state farms are considered ideologically more advanced than any other.

From the early days, however, the Kremlin has recognized that the gap between individual peasant farming and state farms cannot be bridged in one jump. In between is the collective farm. On these, farmers theoretically are shareholders who divide profits after expenses and obligations to the state are met.

Halfway house. The government soon found advantages in collectives as a halfway house on the road to state farms. Political control was easier, crop deliveries faster than with individual peasant farms. And

Faces of Russia

in bad years, members of collectives would get lower incomes, unlike salaried state farm workers.

Since pushing through his program to cultivate the virgin lands beyond the Volga and Urals, Khrushchev gradually has been closing the gap between collectives and state farms. In Kazakstan, for instance, 833 collectives were merged into 188 state farms in 1957. Altogether, more than 25% of cultivated land now is in the hands of state farms, compared to 12% in 1953.

The debate over collectives vs. state farms continues. But the Communists' new party program shows which is likely to win out. "Economic advancement of the kolkhoz system," it says, referring to collectives, "creates conditions . . . in the long run for merging kolkhoz property and the property of the whole people into one Communist property."

VI. External ambition rules economy

Within this framework of controlled debate, even resistance to government policy, the Soviet Union keeps moving ahead. It has confusion, inefficiency, ideological blinders, and clumsiness. Yet, inexorably, the nation plows forward, never altering its direction of movement.

While the regime has been more liberal internally for the past several years, this has not had the slightest effect on the Soviet Union's external ambitions. While Krushchev's Russia is infinitely different

from Stalin's, its external vigor is even greater.

So long as the state holds to its single-minded determination to invest the nation's wealth in areas spelling national power, then economic growth will continue to add menace to the current Soviet posture—and give the Soviet citizen the hindmost.

Even if the economy were to stumble and plans were only 80% fulfilled, growth would still be formidable—as it has been in the past.

On the agenda. Look at the planned future. Total capital investments in the Seven-Year Period ending in 1965, at nearly 200-billion rubles, will be 81% more than in the previous seven years. These funds are meant primarily for heavy industry.

Can the Soviets keep it up?

They have reached a point where agriculture absolutely requires heavier capital investments—in farm mechanization, electrification, fertilizers, and irrigation. This is required, that is, if the Soviet Union —which already produces enough to feed the population in terms of calories—ranks a better diet for the people above its accumulation of more national power.

The nation needs barns in Kazakstan, where more than 3-million animals perished last year for lack of them. It needs railroads in Siberia, where old-style cattle drives still take place; silos in the new lands, where grain still is stored flat or even in the open.

Pressure from below. The consumer, too, wants a break. Communist citizens have yet to prove any exception to the old rule that the more you have, the more you want. Thus, they may well be increasing the pressure from below for the good things in life and showing more impatience with priorities pointing otherwise.

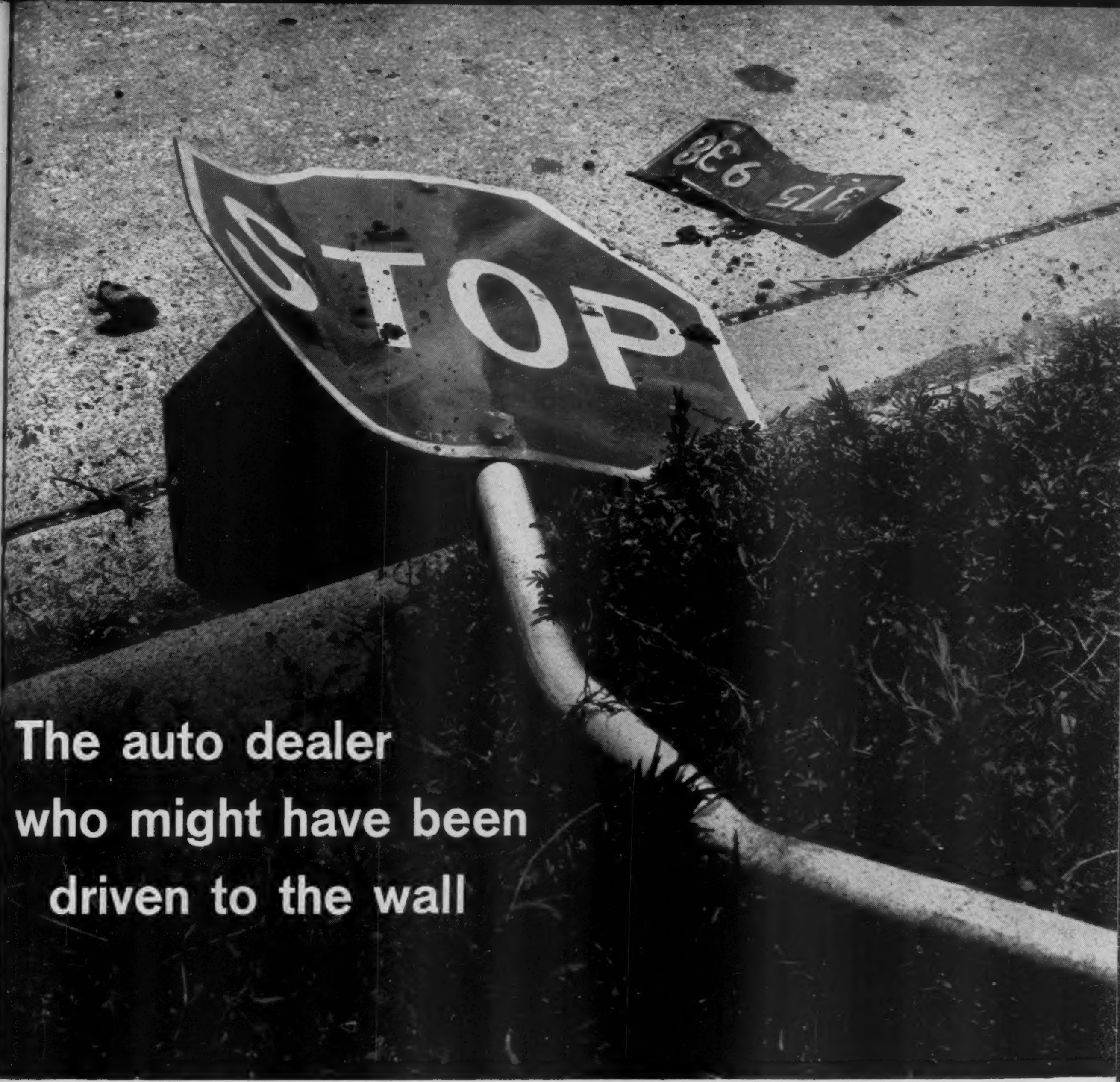
One straw in the wind perhaps is the attitude toward housing. When the average Soviet family gets its new apartment, at first it is delirious with joy—privacy at last. Its members hardly notice the sagging doors and leaking roofs. Eventually, they gripe the same as people anywhere.

A Westerner overheard a conversation recently in which one Russian asked another if the consumer goods situation wouldn't improve if the state allowed limited private operation at the retail level, as in Lenin's NEP days.

"Perhaps," the other Russian replied. "But it's too late for that in our country, comrade. We can't go back. We can only go forward and improve things under the laws of socialism."

Probably, most Soviets agree with the latter.

Nevertheless, it remains true that the revolution of rising expectations hasn't bypassed the land of the Soviets.



The auto dealer who might have been driven to the wall

Overnight, an event that seems minor can determine the survival of your business. For instance, one of Mr. M's prospects took a car for a "little spin." The brakes failed and the car smashed into a stop sign. Seemingly the driver was not injured. But a year later, Mr. M found himself faced with a $100,000 damage suit for back injuries the driver claimed.

Mr. M's first frantic thought: "Am I covered?"

Right then, Mr. M had good reason to be thankful. Only months before the accident, his Sentry Insurance man had offered a complete analysis of his protection needs. It revealed that insurance bought on a "scatter shot" basis had left him with dangerous gaps in coverage. A Sentry team of professional business insurance men surveyed the firm's risk exposures, and made recommendations to plug these gaps with adequate insurance coverage. Result: Mr. M *was* fully insured against the lawsuit that would have driven him to the wall.

Is *your* business survival fully protected? Wouldn't it be a good idea to have an up-to-date, comprehensive survey made by your local Sentry Insurance man? He is a professional, experienced in business insurance problems. No obligation . . . helping firms like yours is his *full-time* job. Find us in the yellow pages.

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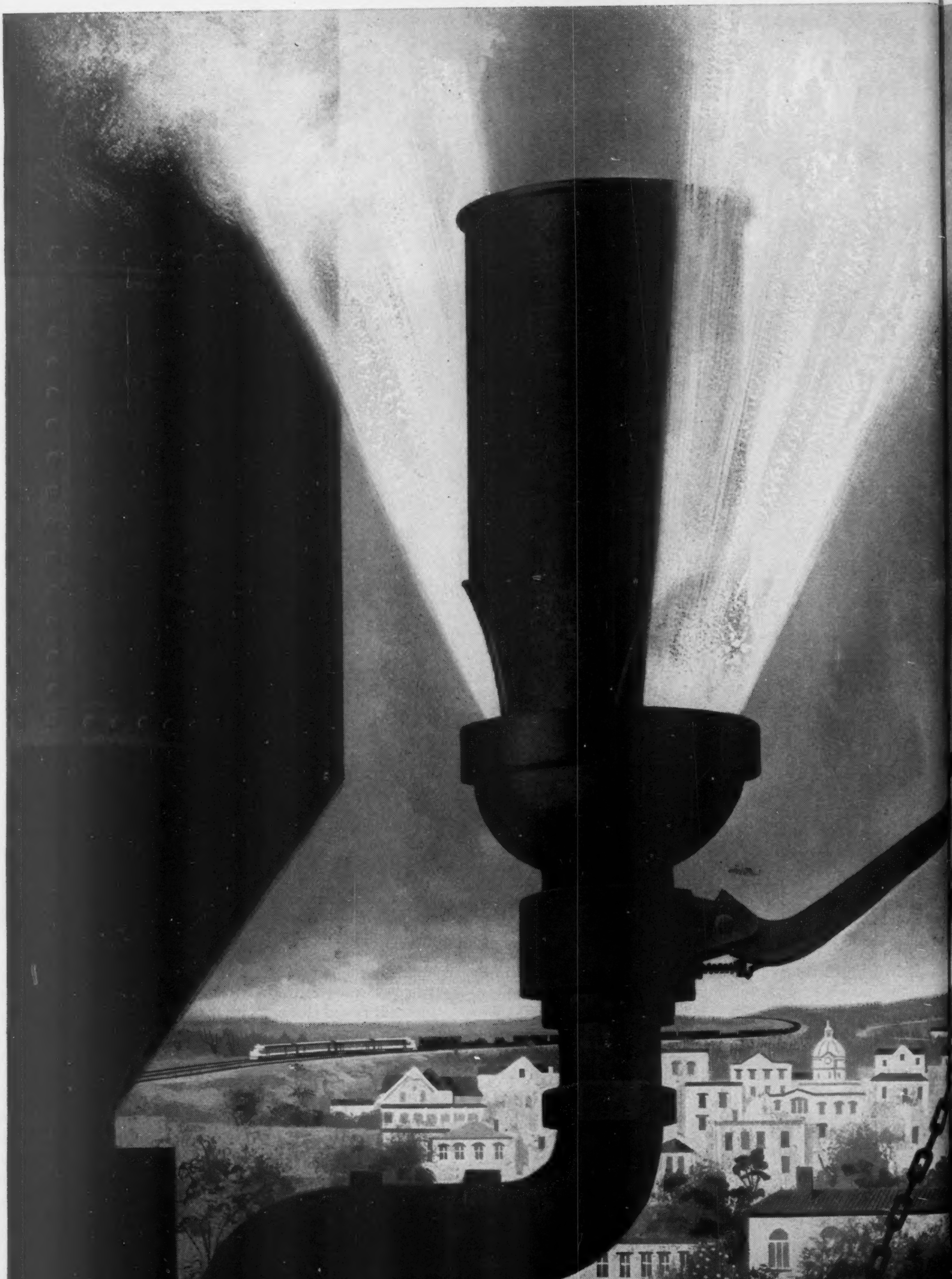

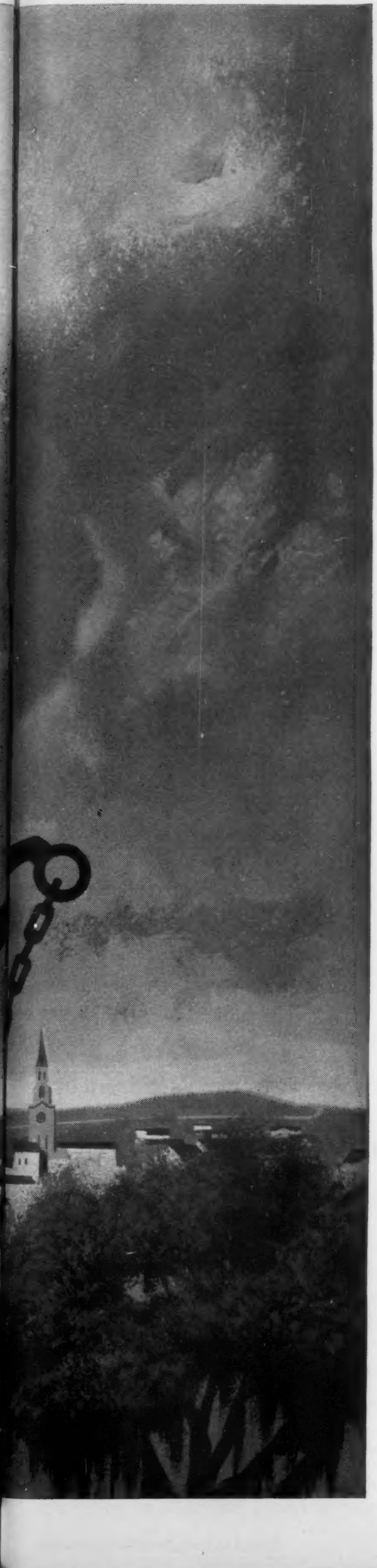

Your factory whistle would make a mighty big noise in a small Southern town!

MANY communities are so highly industrialized that a newcomer is no novelty. It quickly becomes "just another factory" in town. Not so in a small Southern city or town! Your plant stands out. It's important! The whole community welcomes it, and the welcome doesn't wear out after opening day. There's very good reason for this . . .

Today in the South, many small cities and towns are seeking to diversify a traditionally agricultural economy by modest and carefully planned industrial development. Men and women who once grew up "on the land" and stayed there to help work it, now prefer new, non-rural employment. They want a job in industry. They want to hear the sound of a factory whistle in town. And because they *want* it, they are willing to *work* for it.

As a result, a factory locating in such a community finds a ready-made pool of industrious, intelligent workers eager to get a home-town job in industry — and just as determined to *keep* it. Give them a fair day's pay and you'll get, in return, a full day's work. Want proof? Let Southern's Industrial Development Department show you some of these fine, industry-minded small cities and towns in today's fast-growing South. You have no idea how much noise your factory whistle can make, until you hear it here.

"Look Ahead — Look South!"

Harry A. DeButts
PRESIDENT

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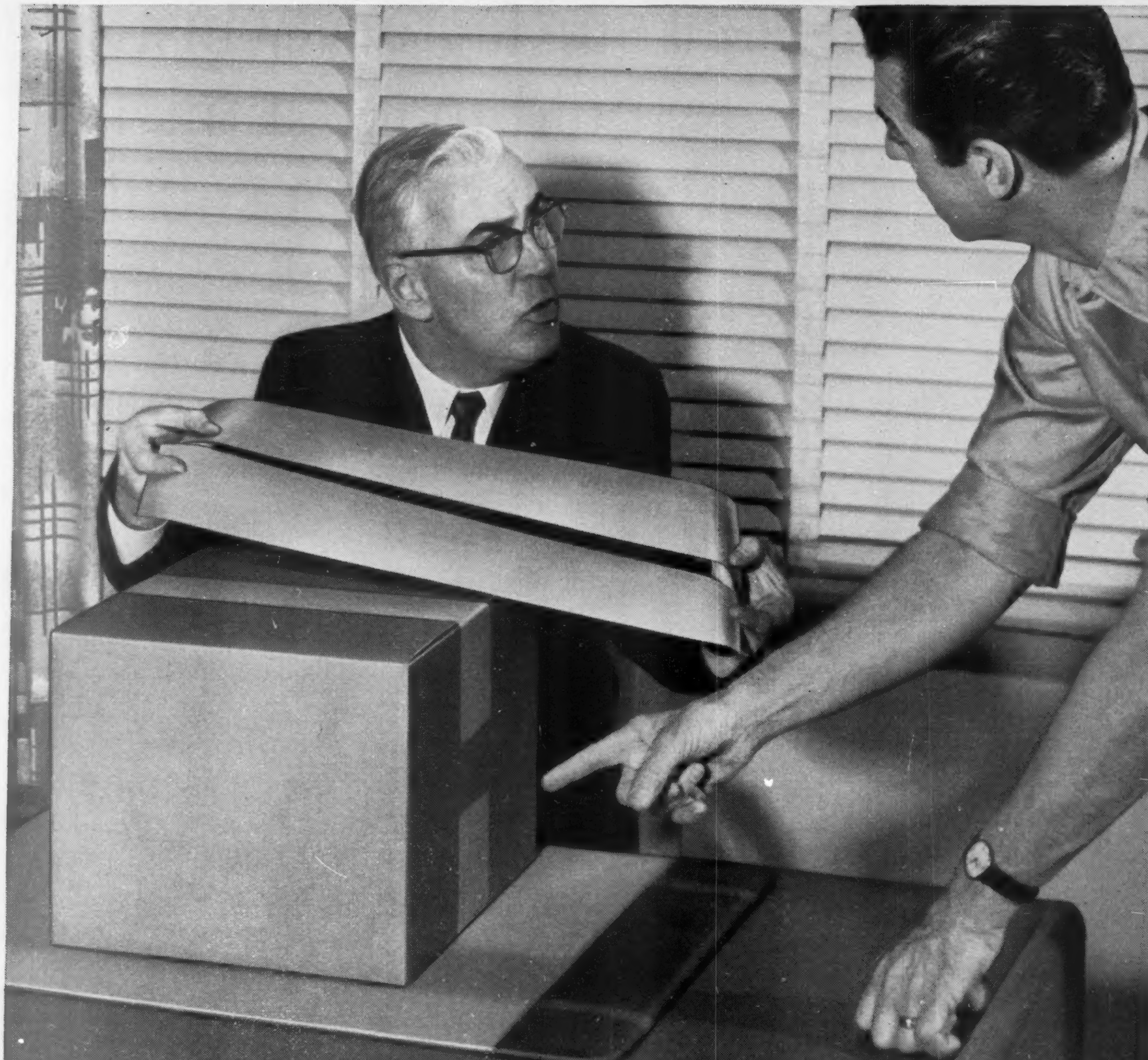


In finance

BW

More news about finance:

Page 71, Wider field for trade-in homes

Page 72, Foreign firms increase stake in U. S.

Interstate calls off merger plan, putting off Montgomery Ward move into discounting

Montgomery Ward's expansion into discounting—via merger with Interstate Department Stores [BW Sep. 30'61,p34]—collapsed this week. Sol W. Cantor, Interstate's dynamic president, called off the deal after he became convinced that "our prime objective of establishing Interstate as a leading factor in the discount retail field can best be achieved . . . by maintaining its independent identity . . ." In the past two years Cantor has doubled Interstate's volume.

Officially, neither Interstate nor Ward's was talking about what scotched the deal, but insiders make the following points:

- Cantor faced mounting opposition to the deal from a number of Interstate's big stockholders, who felt that the company's "tremendous potential" would be buried in Montgomery Ward's problems.
- Interstate's own business has been improving at a rate even faster than Cantor himself had anticipated (he now predicts earnings of over $1.80 per share this year, compared to $1.33 last year), and Montgomery Ward's problems, from close up, took on a more and more formidable aspect.

"It boiled down," says one of Cantor's close associates, "to a question of what price we were willing to pay for financial support. In the end, we decided we could get the money we need on our own."

British will repay part of IMF loan; Japanese seek to borrow from U. S. banks

In the world of international finance, both repayments and borrowings were in the news last week.

The British led things off by announcing their intention to pay off—well in advance—$280-million of the $1.5-billion that they borrowed from the International Monetary Fund last summer.

The repayment will come from the hot money that has been flooding into London ever since the British bank rate was boosted to a "crisis" level of 7% in July to stem a run on the pound. The inflow is continuing, despite a reduction to 6½% in the bank rate on Oct. 5. By repaying IMF, the British avoid putting additional strain on the U. S. gold stock, which they could do by converting their reserves into gold.

The Japanese, whose balance-of-payments position has been deteriorating, are in the opposite corner—they are trying to negotiate a loan to tide them over a payments crisis. They hope to borrow $300-million in the U. S.—$200-million from the three U. S. banks with branches in Japan (Bank of America, Chase Manhattan, and First National City) and $100-million from the U. S. Export-Import Bank.

This should cover an anticipated decline in Japanese gold and foreign exchange reserves from $1.5-billion now to about $1.3-billion next year. **However, some bankers feel that the decline may exceed expectations,** and that the Japanese may have to borrow from IMF.

Banker scores sales finance companies for unsound credit practices

The American Finance Conference, which includes most of the nation's smaller sales finance companies, heard some tough talk about unsound credit practices last week from Ray H. Matson, vice-president of the First National Bank of Chicago. Matson is widely respected as a chronicler of finance company activities.

Matson pointed out that in the first half of 1961, **net credit losses for sales finance companies—bad debt charge-offs less recoveries—rose above the 1960 figure to the highest peak in 25 years.** Matson attributed this poor showing to three factors: (1) advances were high in relation to underlying collateral; (2) a soft used car market; and (3) spotty employment conditions.

In the light of these credit losses, Matson said, a **significant curtailment of inadequately secured loans might have been expected.** But, in fact, the reverse was true—particularly in the risky used car business.

New code of ethics is approved at meeting of accountants

A new much-debated code of ethics that declares it a violation of ethics for an accountant to certify statements of companies in which he has an interest won overwhelming approval this week at the American Institute of Certified Public Accountants' convention in Chicago. **The code takes effect Jan. 1, 1964, if the 41,000 AICPA members approve it in a mail ballot.**

Last year's AICPA meeting tabled a similarly worded code that would have given CPAs just two years to divest themselves of interests in client companies. An existing code bars accountants from expressing opinions in the audit of client companies in which they have a substantial interest. The new code of ethics—similar to ones already in practice in Illinois, Florida, and Arizona—strikes out the loosely defined word "substantial."

Smaller CPA firms are most likely to feel the pinch of the new code. Under SEC rules, accountants can't both certify statements and hold interests in companies with stock exchange listings. But smaller CPA firms rarely work for clients with exchange listings, yet often wind up with stock or a directorship in a company whose statements they certify.

Wider field for home trade-ins

New Jersey mortgage company guarantees a set price on your old house if you buy a new one, but leaves you free to find a better figure. Plan seeks nationwide sales

The term "trade-in" has become a byword in hardgoods lines—anywhere from dishwashers to pianos. Now it's hitting the housing market.

In Fort Worth, 12 builders formed Builders Trade-in Exchange to help them move used homes. In some Midwest areas, builders are teaming with realtors to form joint trade-in programs. In Peoria, a savings and loan association has come up with several plans to encourage trade-ins.

But Operation Trade-Up., Inc., a subsidiary of a Camden (N. J.) mortgage company, has devised the plan that's really attracting attention. Since March, OTU has been guaranteeing the local homeowner a set price for his old home if he's buying another one. This guaranteed price places a floor under the sale of the used home, but the homeowner can still try, over a specified time, to get a higher price in the open market. If he does, he can back out of the agreement within 45 days without fee.

Branching out. OTU's trade-in business has shown big increases each month since it was started, and now it intends to spread out. Starting Jan. 1, it will promote its program nationwide to mortgage companies—selling the name and the program's details for a fee ranging from $2,500 to $10,000, depending on the size of the market.

As officials at South Jersey Mortgage see it, the principal beneficiary is the homeowner. But because the program stimulates sales—of both old and new homes—it can boost business for builders, brokers, and, specifically, the mortgage company that's sponsoring it.

The idea for OTU was prompted by the sluggishness of real estate last winter. Housing trade-ins have often been tried on a limited scale, but South Jersey Mortgage thought a more integrated program would have a better chance. So far, the idea has paid off. OTU has handled more than 240 trade-in cases, and Pres. Louis H. Meyer reports "mortgage volume is double this year over last," despite reduced real estate activity in the Camden area. Meyer adds: "We felt there was a potential market locked up in the people who wanted to buy new homes but were afraid they couldn't sell their present one, so ended up just sitting."

After the war. The case of the person who does just this has become a gnawing problem in the housing market. After World War II, with so many veterans and their families settling, almost everyone was a first-time home buyer. But in recent years the market has changed, and the second-time buyer, a much fussier customer, is king. The Federal Housing Administration estimates that buyers of second homes comprise 60% to 70% of the market.

Thus, the used home market has become extremely important. Unless a man can sell his own house he's not likely to be in the market for another one; the fact that housing sales haven't been buoyant lately only aggravates the situation.

There have been many attempts to meet this problem, none of them successful on a broad scale. Numerous builders, for example, have tried to bolster business by offering to take a prospect's old house in trade. Generally, this hasn't worked too well, because the builder finds a considerable amount of his capital is tied up in homes he often can't sell quickly.

Two mortgages. FHA came up with its own trade-in program last year. But because it required two mortgages and two sets of closing charges, the program found few takers. It has since been modified, so that only one mortgage is required, but there are still snags. In using FHA, for one thing, 15% of the mortgage loan on a trade-in must be placed in escrow until the house is sold. Builders say this also ties up capital too long.

OTU's program, built around the FHA plan, is aimed at the lower end of the market—$7,000 to $16,000 homes. Working with a realtor or builder, OTU arranges for an FHA appraisal, along with an FHA conditional mortgage commitment. If the homeowner wants to apply for an OTU purchase contract, he pays a $25 fee for an additional OTU appraisal.

OTU then determines its sales price. If the homeowner accepts it, he submits a 1% fee (the $25 becomes part of the fee). If he can find a buyer at a higher price within 45 days, he can still back out. After that, any sale made is made in the name of OTU. At the end of 90 days, the title of the house shifts to the company, and the customer receives his settlement price.

Meyer says that this, in effect, relieves the home buyer's apprehensions about selling his old home. Knowing that the sale of his home is insured, he becomes a more active would-be buyer.

Rarely stuck. OTU belittles the risk of being stuck with a home that it can't sell: Meyer feels his people know how to price homes so they will move. Thus far, it's had to buy about two dozen homes—but it only has eight on its hands now.

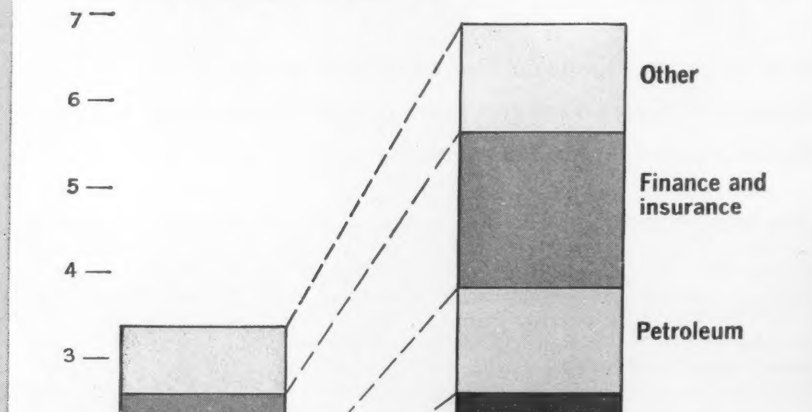
Above all, the trade-in program has been a boon to the parent company's mortgage business. South Jersey Mortgage naturally gets the mortgage on the old home and, because it works so closely with the realtor or broker, it's likely to get the new home mortgage also.

"We can afford to lose money on some trade-ins because of the mortgage business that's been generated," says Meyer. Another benefit is that more builders and brokers are requesting South Jersey Mortgage participation in other business.

All told, Meyer says South Jersey Mortgage's out-of-pocket expenses for the program were about $25,000. The subsidiary operates right out of the parent company's offices, so expenses are limited. Most of the cost is in promotion and sales material, because, as Meyer puts it, it takes quite a while for even real estate men to understand the complicated procedure. He says South Jersey Mortgage has been swamped with inquiries from as far away as Portland, Ore., and feels this is a good omen when his sales representatives start on the road this January. **End**

This Commerce Dept. analysis gives the first exact data on foreign direct investment in U.S. facilities, its effect on the domestic economy

1 Foreign direct investment in U.S. has doubled in a decade



Data: Dept. of Commerce © Business Week

Foreigners boost stake in U.S. plant

New Commerce survey reveals substantial growth of direct investment by foreign companies over the past decade. Future increases in capital outlay should be even bigger

The chart above, based on a newly released Commerce Dept. survey, pictures a rising tide of direct investment by foreign companies in U. S. facilities [BW Jul.29'61,p36]. The survey reports that foreign direct investment in the U. S. doubled in the last decade—to $6.9-billion at the end of 1960, compared to $3.4-billion in 1950. At the same time, portfolio investment climbed to $11.5-billion.

Topping the list of foreign investors is Britain, with a direct-investment stake of about $2.2-billion, almost one-third of the total. Close on its heels is Canada with nearly $1.9-billion, and the six-nation European Economic Community (EEC) with $1.3-billion. Most of this direct investment has gone into manufacturing operations.

Lesson for U. S. business. For U. S. businessmen, the meaning is clear. Some marginal U. S. companies may be seriously hurt by increased competition for segments of the U. S. market through foreign-owned domestic production, as well as imports. Others will have to settle for a smaller piece of the market, as already is happening on a small scale.

The impact, though, may be more serious in the future. In the next decade, foreign investment in the U. S. is likely to move ahead at an even faster rate than in the 1950s.

To date, these investments have had little effect on the U. S. balance of payments. In the 10-year period covered in the study, capital inflow averaged only $155-million annually.

Sources of capital. For the most part, foreign companies have used retained earnings to finance their growth in the U. S. Of the $3.5-billion added to the value of direct investments during the 1950s, $1.7-billion came from undistributed corporate profits, and at least $300-million was retained profits of unincorporated branches of foreign companies.

Some companies, just coming into the U. S., have turned to the local money market for partial financing. This was the case with Montecatini's new $10-million plant in Neal, W. Va., and American Saint-Gobain's plate glass manufacturing plant now being built in Kingsport, Tenn.

Targets. Only a few segments of the economy have received heavy investment. Over one-third of the total, $2.6-billion, has been invested in manufacturing operations. The finance and insurance industry is next with $1.8-billion, followed by

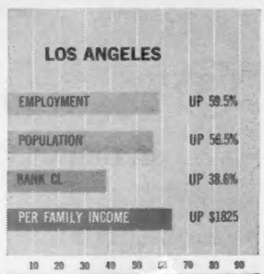
GO WEST

where the real growth is . . .

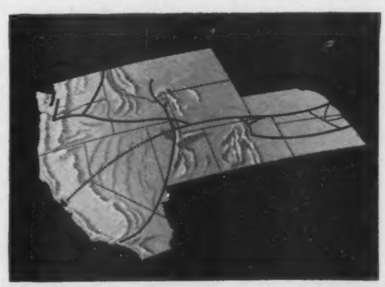
LOS ANGELES

for instance

Locate your new plant or warehouse in the City of Industry, in Los Angeles County, the center of the Southern California growth area that seems destined to be America's No. 1 industrial market by 1965. It's a vital part of the growing West—alive and "going places."



Locate in the West—where 9 out of 10 industrial markets are out-pacing the national growth.



Greater Los Angeles spells Opportunity. A quick glance at the tables above shows that this area, like other metropolitan centers in the West, has far-above-average opportunities and advantages for industry.

So, go where growth is! Locate along Union Pacific, specifically in our fully developed Industrial District tract in the City of Industry, only 17 miles from downtown Los Angeles. Utilities are in. Streets are paved. Lead tracks from adjoining Union Pacific main line have been installed. Major thoroughfare, and soon-to-be-built Pomona Freeway, provide easy access.

Your Traffic Manager, who knows routes and rates, will tell you that when your plant is located on or near Union Pacific trackage, you are assured of reliable freight service backed by most modern facilities and equipment.

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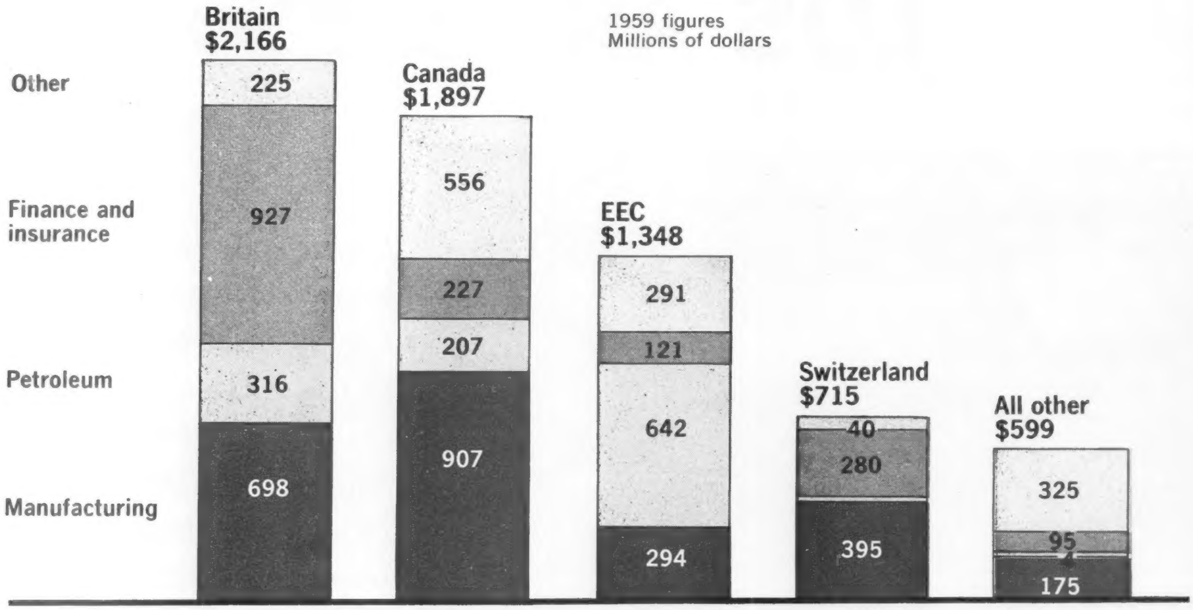
For more detailed information on this or other sites in the West, see your nearest Union Pacific representative, or address Industrial Development Department, Union Pacific Railroad, Omaha 2, Nebr.

② Which countries are putting in money—and where it's going



Data: Dept. of Commerce

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$1.2-billion in the petroleum industry (mostly British/Dutch Shell).

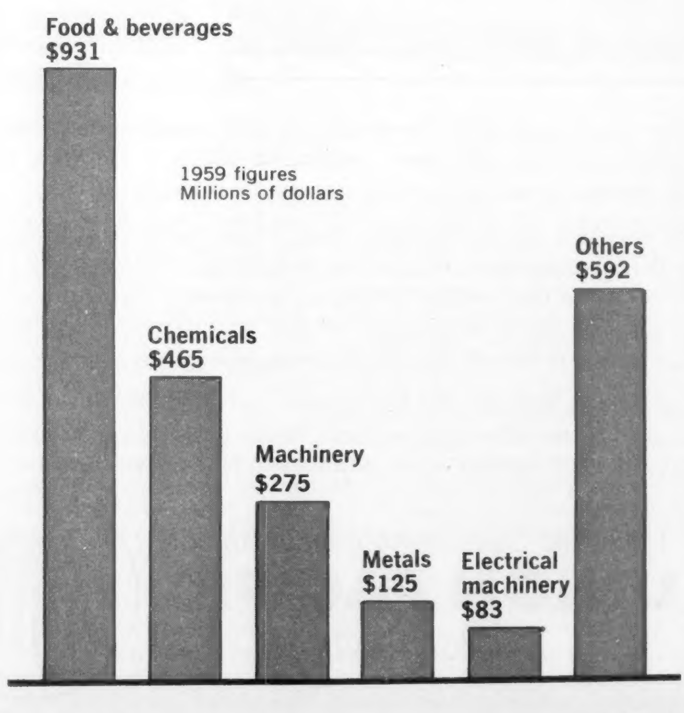
But even with such investments, the survey found that foreign-controlled enterprises have comparatively little weight in any major branch of the U. S. economy. For example, total sales and revenues reported by foreign-controlled companies in 1959 were $8.1-billion (excluding finance, insurance, and distribution), only a small proportion of total domestic corporate sales.

Of this total, sales of petroleum companies were $2.4-billion, mostly by Shell Oil Co., the one large foreign-controlled company with a sizable participation in the domestic industry.

Manufacturing sales. Manufacturing companies had sales totaling $5.1-billion, the largest component of which were $2.3-billion in food and beverages and $900-million in chemicals. Net earnings on these sales neared $320-million in 1959.

One other fact turned up by the survey is that 80% of the total foreign direct investment has gone into subsidiaries incorporated in the U. S. Unincorporated branches of foreign companies are significant only in the finance and insurance industry, where this form of organization is necessary to draw on the financial resources of the parent.

③ Biggest area of investment is in manufacturing



Data: Dept. of Commerce

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In production

BW

More news about production:

Page 83
Why utilities are buying giant generators

Raymond Umbaugh leases facilities to put his Gyroplane into production

The much-delayed Umbaugh-18 Gyroplane (picture), a two-place private aircraft that's capable of vertical takeoff and no-roll landings [BW Jul.11'59,p111], came a step closer to production last week. Raymond E. Umbaugh, president of Umbaugh Aircraft Corp., signed a 25-year lease for manufacturing, hangar, and office space in the Bartow Airport Industrial Center in Florida.

Umbaugh's aircraft, which works on the principle of the Autogiro with a pusher propeller, was type-approved for manufacture by the Federal Aviation Agency about a month ago. **The aircraft fills the gap between a helicopter and a fixed-wing plane, being easier to fly and much simpler mechanically than a helicopter. Though it cannot hover in the air, it is capable of straight-up jump takeoffs**, and can operate from small fields and rough terrain. Roll-out of the first production version of the craft is scheduled for early 1962.

The Gyroplane has created considerable controversy in the aircraft industry because of Raymond Umbaugh's rather unorthodox business methods. He has collected deposits from prospective dealers and customers and has orders for several thousand units at $9,995 each.

Umbaugh has operated on a cash basis with all suppliers and has neither borrowed capital nor sold stock in his company. Parsons Corp., Traverse City, Mich., is supplying the rotor blades for the Gyroplane; Goodyear Tire & Rubber Co. will make the landing gear and brakes; and the AC Spark Plug Div. of General Motors will supply instruments. Lycoming Div. of Avco Corp. will manufacture the engine system. Umbaugh Aircraft itself will produce the fuselage assembly.

Five prototype Umbaugh Gyroplanes were made in Hagerstown, Md., in leased space in the Fairchild Engine & Airplane Corp. plant. Production tooling is now on its way from Hagerstown to Florida.

Bulk shipping method for glass containers speeds handling, may cut costs

Glass containers may soon be almost as easy to handle as tin cans if a new bulk shipping technique developed by American-Wheaton Glass Corp., a subsidiary of American Can Co., catches on in the food and beverage industry.

American-Wheaton says it has perfected bulk palletizing equipment that will handle batches of 7,000 containers at a time. Ordinarily, empty glass containers are shipped to packers in cartons of two dozen. Packers and bottlers have to empty the cartons, fill the glass containers, and then put them back into the cartons.

With big pallets of containers, the jars or bottles are automatically unloaded and fed to filling lines, and there are no original cartons to empty, handle, and store.

Canco also believes that packers will jump at the chance to order cartons separately from containers, instead of ordering them both from the same supplier, as is now the practice. And because the cartons are only packed once with the bulk-pallet system the company thinks that the method will appeal to companies that use cartons for retail displays.

Automatic depalletizing equipment to handle the bulk shipments of glass containers can be delivered within 90 days, according to American-Wheaton.

Progress in metals trades: big melting furnace, new tungsten crystal, new alloy

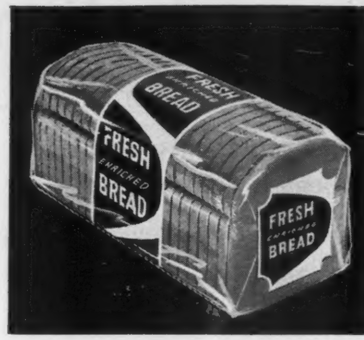
One of the country's largest vacuum induction melting furnaces is being designed and built by F. J. Stokes Corp. and Inductotherm Corp. for Allvac Metals Co., Monroe, N. C. Slated for completion next year, the furnace will be able to cast ingots 20 ft. long, and will have a vertical melting and casting chamber 20 ft. in diameter and 40 ft. high. **The big furnace will be used primarily for production of electrodes for consumable arc remelting furnaces.**

Allvac has also increased its rolling capacity, adding a new five-stand rolling mill to its Monroe facilities. The company supplies special metals for aircraft, electronics, and nuclear reactor components.

A new method for producing tungsten crystals in single crystal form up to 10 in. long and ¼ in. in diameter has been developed by Westinghouse Electric Corp. Unlike ordinary tungsten, which is brittle at room temperature, single crystal tungsten is ductile and can be formed into shape or rolled into sheet. Westinghouse researchers have rolled the super pure tungsten into sheets 3 ft. long and ½ in. wide, and drawn it into fine wire.

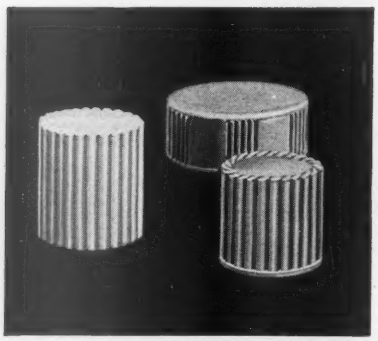
Magnesium fabricators are encouraged by reports of **tough, light alloys of magnesium and lithium** developed by researchers at Battelle Memorial Institute. The alloys weigh 20% less than magnesium, which is the lightest pure structural metal. The alloys look particularly promising for space vehicles because their lightness permits the use of thicker sections with greater resistance to penetration by micrometeorites.

HOW MANY OF THESE AVISCO® PACKAGING MATERIALS CAN YOU USE?



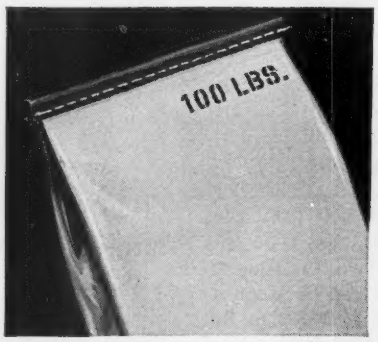
1 CELLOPHANE

Available in many different types, tailor-made for a wide variety of products including foods, tobacco and textiles.



5 PLASTIC MOLDING COMPOUNDS

Avisco urea formaldehyde molding compounds are used to make bottle and container closures, colorful caps and cases.

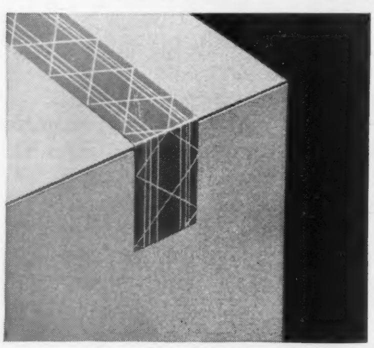


6 RAYON INDUSTRIAL SEWING THREAD

Yields up to 30% greater yardage per dollar; offers greater strength and trouble-free sewing on bag stitching machines.

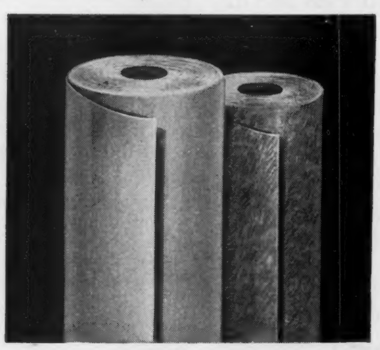
7 RAYON STAPLE

Clean, white Avisco rayon staple is placed in necks of pill bottles to prevent pill breakage. No static hazard. Virtually lint-free.



11 RAYON FOR REINFORCED TAPES

Rayflex® filament yarn adds strength and flexibility to packaging tapes at low cost — for a wide variety of uses.



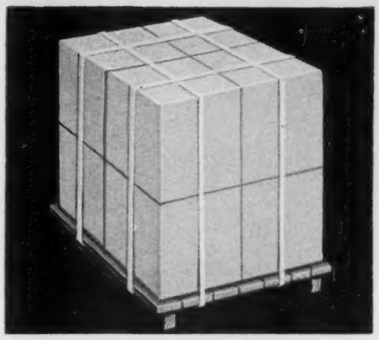
12 RAYON FOR SPECIALTY PAPERS

Avisco rayon can be used in the pulp blend to give added flexibility to heavy paper or paperboard—decorative effects to paper.

13 RAYON AND ACETATE FOR RIBBONS

Aviseo rayon and acetate are widely used to manufacture many different kinds of ribbon for use in gift packaging.

AMERICAN VISCOSE CORPORATION, PACKAGING DEVELOPMENT SERVICE

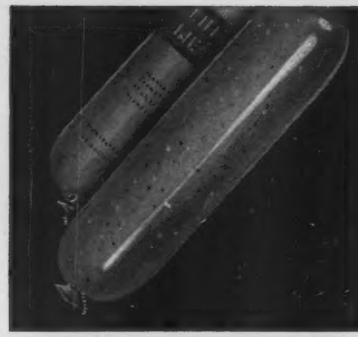


2 AVISTRAP® CORD STRAPPING

Outperforms metal strapping—at lower cost—in many applications. Safe and light in weight. Eliminates disposal problems.

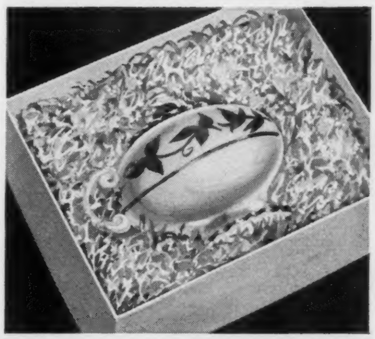
3 CELLULOSE BANDS

Avisco cellulose bands provide a visible, tamperproof seal around the neck of a bottle or jar. Printed bands are available.



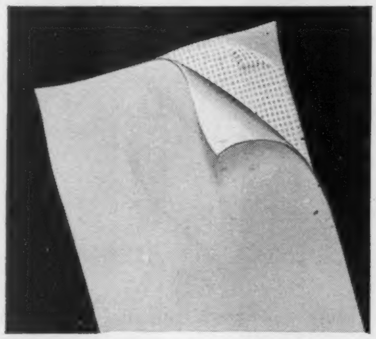
4 CASINGS

Avisco transparent and fibrous casings offer meat processors easier stuffing, uniform shapes and more full slices.



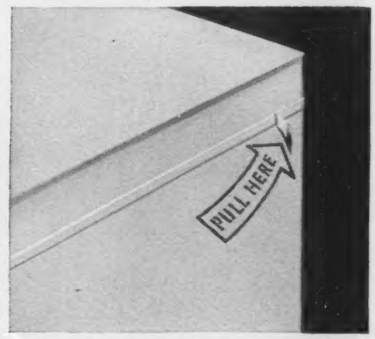
8 CELLO-CELSIOR® SHREDDED FILM

Shredded cellophane is used by many manufacturers to cushion delicate objects. It also adds decor to a gift-type package.



9 RAYON FOR REINFORCING

Rayflex® filament yarn is used to make scrim, which is laminated with paper, film or foil to give added protection.



10 RAYON FOR TEAR TAPES

Tear tapes made of Avisco rayon simplify the opening of cartons. No cutting required. No resulting damage to contents.

14 RAYON FLOCKING

A velvety texture can be simply and economically applied to boxes and containers by spraying with flock of Avisco rayon.

FOR MORE INFORMATION, ATTACH THIS COUPON TO YOUR COMPANY LETTERHEAD

American Viscose Corporation
Packaging Development Service, Dept. C.
1617 Pennsylvania Blvd., Phila. 3, Pa.

Tell us about your packaging requirement or problem, and check the numbers of the Avisco products in which you are interested. We'll be happy to tailor our suggestions to fit your specific needs. Be sure to include your name.

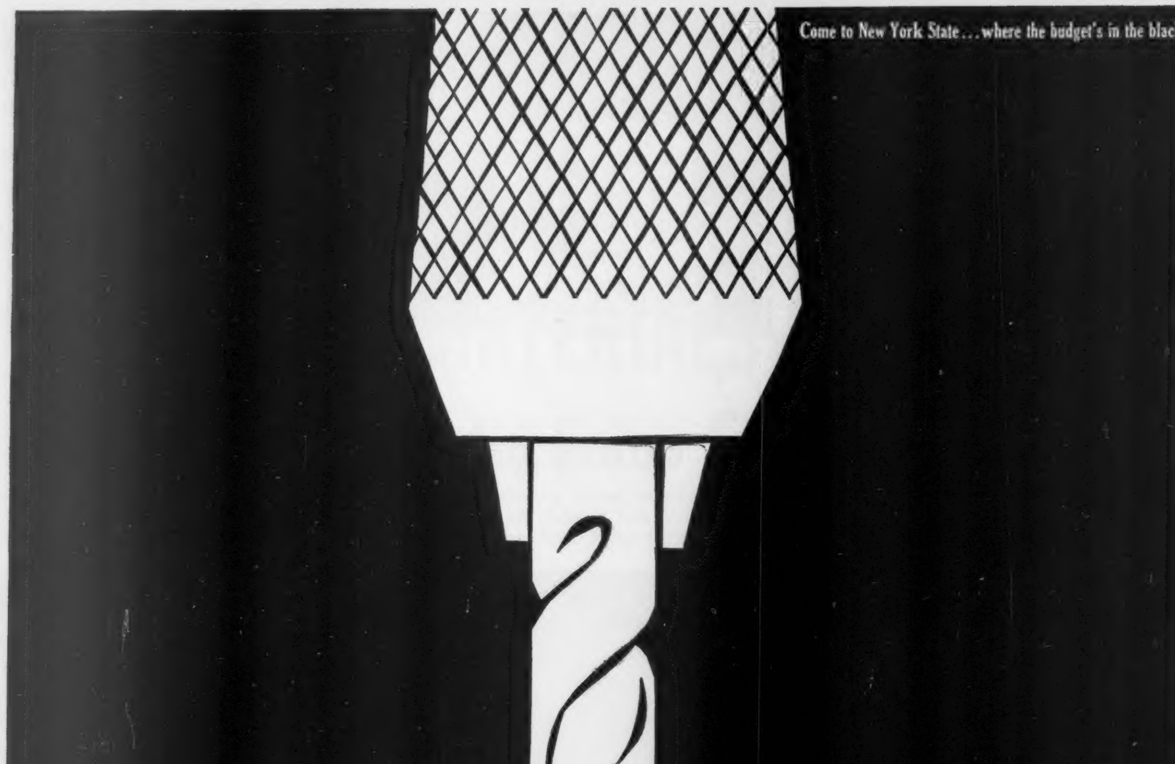
1_____ 2_____ 3_____ 4_____ 5_____

6_____ 7_____ 8_____ 9_____ 10_____

11_____ 12_____ 13_____ 14_____

AVISCO

1617 PENNSYLVANIA BOULEVARD, PHILADELPHIA 3, PENNSYLVANIA

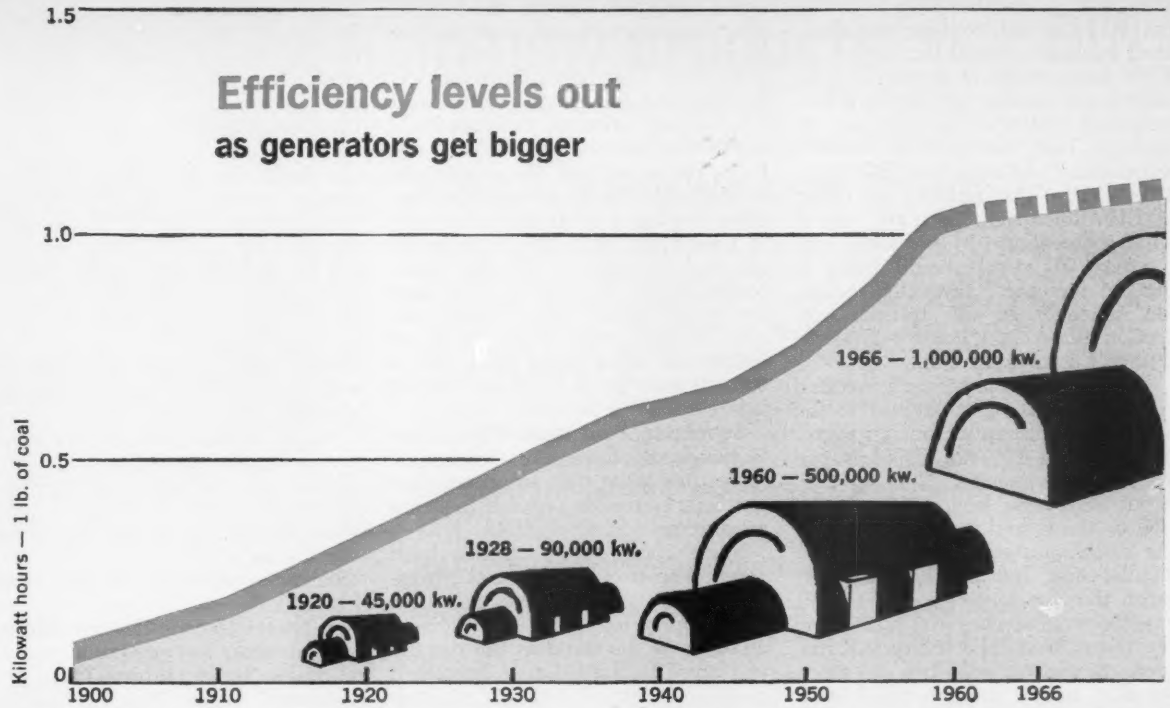


LABOR IN NEW YORK STATE LEADS IN SIZE, SKILLS, STABILITY

In these days of razor-keen competition, New York manufacturers have an edge. The state's favorable labor climate has helped them cut unit costs. One cost-cutting factor is that New York has the nation's greatest concentration of *highly skilled* factory labor—2,000,000 strong. This vast resource of manpower has experience in practically every type of industry. Time and dollars don't have to be spent on long training programs. New York labor also has an enviable record for staying on the job. Hours lost from strikes per employee are among the lowest of any industrial state. When you consider stable, highly skilled labor—plus the state's solid economy and many other advantages—you'll conclude that New York State is the number-one location for your new plant.

We will prepare for you — without cost or obligation — a confidential survey of proposed plant sites, selected to fit your needs. Outline your requirements on your business letterhead and send them to Commissioner Keith S. McHugh, Dept. of Commerce, Room 3305, 112 State St., Albany 7, N. Y.

N.Y.S.



Data: Edison Electric Institute; Business Week Estimate

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Power efficiency near its limit

Giant steam turbogenerators are close to the theoretical maximums. To meet rocketing demands for electricity, the industry is looking hopefully to exotic breakthroughs

Increases in the size and efficiency of steam-driven turbine generators, charted above, suggest something of the challenge faced by turbine-generator builders.

Today's giant generators get nine or 10 times the mileage out of a ton of coal that their ancestors did 60 years ago. But these dramatic gains have suddenly brought turbine generators near to the theoretical limits of efficiency; barring major breakthroughs, further rises will come only in driblets.

The utilities hope to squeeze out whatever fractional gains in efficiency are still available by switching to brute-size generators, which are cheaper to install, per kilowatt of capacity, than several smaller units of equivalent capacity. The heftiest generators now operating—two 500,000-kw. units—were turned on just last year, and already still larger models are in the mill at all three turbine-generator manufacturers—General Electric, Westinghouse, and Allis-Chalmers Mfg. Co.

A few weeks ago, Allis-Chalmers grabbed off the real prize: a contract for a 1-million-kw. system for New York's Consolidated Edison Co. [BW Oct.14'61,p189]. Meanwhile, GE is building two 650,000-kw. generators, and two others of 900,000 kw.; Westinghouse has contracts for a pair of 580,000-kw. units.

Worries. With the electric utilities heading into their biggest period of growth—and change—some industry men are privately worrying over the tapering potential of efficiency. Since World War II, over-all capacity has risen 8.6% per year, until today it stands at 170-million kw. This will be doubled by 1970, quadrupled by 1980, with industry investment in plant rising from $40-billion to over $180-billion in 1980. Clearly, the last ounce of energy must be wrung from every machine.

The steady growth is bringing important changes to the industry, creating a proportionately greater demand for the bigger, more efficient generators. This stems partly from the stepped up "pooling" or regional interconnecting of power systems. Pooling allows individual utilities to buy power from their neighbors to help meet peak or emergency loads. And with pooling assuring it of reserve capacity in case of breakdown, the smaller utility can sink its funds safely into a larger generator. Pooling has already reached a point where 85% of all capacity is linked by one or more of the 20-odd interconnected systems in the U. S. "And by 1970," says Philip A. Fleger, president of Edison Electric Institute and board chairman of Duquesne Light Co. in Pittsburgh, "we expect all the major power systems to be capable of operating on an interconnected basis throughout the U. S."

Demand for the king-sized gener-

ators will get another fillip from the era of extra-high voltage transmission, now just around the corner. In EHV, huge blocks of power are generated and transmitted for long distances at 230,000 volts or more, at perhaps half the cost of normal transmission, or even less [BW Dec. 17'60,p82]. "The number of miles of EHV lines right now are only a small percentage of the total, but the next 10 years should bring a marked increase," says D. F. Shankle, manager of the transmission section of Westinghouse's Electric Utility Engineering Dept.

By and large, the bigger generator is more efficient and cheaper to install than a cluster of smaller units, often costing 15% to 20% less per kilowatt of capacity. The big unit needs only one boiler, instead of two or three, and it can be run by the same number of people as one smaller unit, but all this does not mean that the large generators will run the smaller ones completely off the reservation. The utility still has more flexibility with two or three smaller units, and in purchasing them one at a time it is able to spread the capital cost over several years.

How it was done. To understand how Allis-Chalmers, GE, and Westinghouse were suddenly able to get their huge generators close to what most engineers consider the physical limits of efficiency, you have to see how steam generators work.

Mostly, they're fueled by coal, though gas or oil can do the job—or even uranium, in a nuclear plant. The fuel heats water and so makes steam, whose pressure rotates a series of turbine fans on a shaft. On the end of the shaft is the generator, an electromagnet that rotates in a series of stationary wire coils. These coils cut the magnetic field and so generate current.

The major gains in efficiency have come with special "reheat" units to keep the steam hot through the later stages of the turbine, with high-precision designs for the fans, with more efficient cooling of the generator, and with more durable metals.

Stepping up the size of the generators was more of a trick, once they had reached the area of 300,000 kw. or 400,000 kw. Before that plateau, the builders simply added more and larger fans. But shafts can be just so long, and fans so big, before the shaft begins to flex like a buggywhip.

The builders got around that by "cross compounding" their units, setting up two generators in one. There is only one boiler, but two separate turbine shafts and generators; one shaft handles the higher-pressure stages, the other the bottom pressures. Thus the 1-million-kw. generator that Allis-Chalmers is building will have high-pressure and intermediate-pressure turbines on a main shaft spinning at 3,600 rpm. From these sections the steam will be ducted to three low-pressure sections driving a shaft and generator at 1,800 rpm. This doesn't mean all big turbogenerators will be cross-compounded, though. In "the next few years" after it clears some technical hurdles, GE hopes to go to 500,000 kw. on a single shaft, and to 600,000 kw. "in the not too distant future."

Squeezing a bit more. The manufacturers still have a few tricks left for getting what little improvements in efficiency remain possible in steam generation.

Since 1953, seven utilities have gone over to "supercritical" pressures—that is, operating at pressures and temperatures where the density of steam is the same as the density of water. As the water is heated, it reaches a critical balance of temperature and pressure where steam is formed almost instantly without boiling. Supercritical pressures bring gains of 4% to 5% in thermal efficiency, but not all problems have been solved in handling water and steam at these pressures.

Radioactive fuels could also help. One pound of uranium in a nuclear plant might produce as much usable heat as 2.5-million lb. of coal, or 300 carloads. At least in some areas of high fuel costs, the price would be competitive with coal. "Just how competitive nuclear power plants can be depends mostly on the price of coal," says C. E. Kilbourne, an engineer at GE's Turbine Div.

Private utilities have already committed about $700-million in 24 nuclear power projects, which will have an eventual capacity of 2-million kw. Five of them are operating now, with a capacity of 388,500 kw. Some insiders predict that nuclear capacity will be up to 8-million kw. by 1970, and to 39-million kw. by 1980. But so far, none of the nuclear plants is anywhere near competitive with power plants set up near coal mines.

Direct conversion. In a more exotic quest for higher efficiencies, the utilities are seeking real laboratory breakthroughs in the direct conversion of fuel to electricity [BW Apr. 9'60,p155]. At the moment, there are four candidates:

- Magnetohydrodynamics (MHD) generates power from the flow of ionized gas through a magnetic field applied at right angles to the gas flow. The electrons in the gas are deflected by the magnetic field and dart crossways to one of two electrodes—positive and negative—and then back again to the gas stream, thus creating a current. Under the right conditions, an MHD generator can have 80% to 90% of heat efficiency, compared to only 40% for turbogenerators. Avco Corp., with the backing of 12 utilities, is working on an MHD generator that now puts out 205 kw. of power—20 times the output achieved when the project was first announced in 1959. Several other companies are also developing MHD devices, particularly aircraft- and missile-makers.
- A thermionic generator produces power by boiling electrons off a metal surface at extremely high temperatures, and shunting the electrons into a vacuum and to a colder surface on a second electrode. Heat efficiencies of 20% to 30% seem likely.
- Thermoelectric devices follow a similar tack, but generally operate at lower temperatures. Current is produced when heat is applied across the junction of dissimilar metals or semiconductors. In its simplest terms, thermoelectric conversion may take place in a metal rod heated at one end and cooled at the other. Westinghouse has delivered a 100-watt thermoelectric generator to Northern Illinois Gas Co. for charging the batteries of a microwave relay communications system and as a power source for cathodic protection of pipelines. Westinghouse has also developed a 5,000-watt unit for the Navy's Bureau of Ships. Efficiencies haven't run much above 10%, but may eventually climb to 30%—putting them in a league with turbogenerators.
- The fuel cell consists of two electrodes—one positive, one negative—an electrolyte that acts as a pathway between the electrodes, and two kinds of fuel—an oxidizing agent and a reducing agent. Efficiencies run somewhere between 60% and 80%.

These four techniques could be used separately or even in combination with regular steam turbine generators. Thus MHD devices with their extremely hot flame or plasma might feed waste heat to a regular boiler. Thermoelectric devices might even tap the final boiler heat.

These power packages sound promising, but they're years or even decades away. Still, the utilities eye them hopefully. "We're certainly not desperate," says a Philadelphia Electric Co. executive, "but we're going to investigate anything that will cut the cost of a kilowatt. **End**

In new products

BW

Lightweight concrete made with wood shavings under study for use as interior walls, floor slabs

A lightweight concrete using wood shavings instead of sand is being investigated by the Industrial Research Div. of Washington State University. Wood concrete is two-thirds lighter than conventional concrete. It has a strength of up to 1,000 lb. psi., one-fourth that of standard concrete. But researchers consider it strong enough for such applications as interior masonry walls and floor slabs.

An intended use is for walls of small homes and small farm buildings. The lightweight walls can be poured on the ground and then tilted into place. In addition, the new concrete can be used as an insulating material and for patio decorations.

IBM's new tape drive and control system speeds up rate at which facts are fed to computers

International Business Machines Corp. is bringing out a faster magnetic tape system for use with the IBM 7074, 7080, and 7090 computers.

From data on magnetic tapes, these units will feed 170,000 characters per second into an IBM 7090, and 250,000 characters per second into either an IBM 7074 or an IBM 7080 data processing system, the company says. These rates are more than twice as fast as any in use.

Tape handling time is reduced by using tape reels packaged in sealed cartridges, which are automatically opened and sealed again before removal from the units.

An IBM Hypertape drive rents for $1,300 per month, and the IBM Hypertape control for $3,400 a month. Deliveries of the tape units are scheduled to begin in April, 1963.

New products briefs

Eastman Chemical Products, Inc., a subsidiary of Eastman Kodak Co., is evaluating a new elastic fiber made from polyester resins—the same chemical base from which Dacron is made. The fiber is a monofilament that produces a smooth-surfaced fabric. According to Pres. W. S. Vaughn of Eastman Kodak, the fiber promises to be immediately useful in foundation garments and swimsuits. **It resists discoloration caused by chlorine and atmospheric fumes.** Eastman expects to be in pilot production of the fiber within a few weeks. Commercial production will follow if the fiber meets approval of the textile trades.

A machine that automatically dispenses flowers is in operation at New York's Grand Central Terminal. The flowers are moisturized and wrapped to keep them fresh. The machine deals out eight 12-in. roses for $1.50, and a three-carnation corsage for $1.00. Automated Flowers Co., Greenwich, Conn., installed the machine, manufactured by Wittenborg, Inc., Denmark, a Universal Match subsidiary.

An ultrahigh vacuum system, in the shape of a stainless steel tank approximately 30 in. in diam. and 60 in. long, is being offered for industrial use by the Ilikon Corp., Natick, Mass. It develops pressures as low as a vacuum in space 1,000 mi. high. Uses of the system are space simulation, vapor deposition, and materials research. Price of the system is $28,000.

Eastern Air Lines DC-8 roars off Miami runway headed for New York—the route on which company's fortune was made

TRANSPORTATION

Striving to make a new look pay

With infusion of fresh ideas from Pres. Malcolm MacIntyre, Eastern Air Lines is going all-out to please the passenger—but can it restore the profits that once delighted stockholders?

Throughout most of its existence, Eastern Air Lines, Inc., has been a master at the art of efficiently and profitably flying airplanes. Now it is learning to fly people.

Under its new president, Malcolm A. MacIntyre (picture), the nation's third-largest domestic airline is in the throes of a revolution. Its entire philosophy has been upset. Not only must it now do business in a completely new way, it must sell the public on the change. Neither job is proving easy.

"Oh, I know we used to treat passengers badly," says a former Eastern official. "But we made money every year."

Today Eastern is doing its utmost to treat passengers the best of any airline flying—and it's losing its shirt. The reputation with the traveling public so firmly built up over the years is dying hard.

New gambits. This fall Eastern has embarked on a massive drive to get its old passengers back and to attract new ones. It is tripling the number of jet seats it flies. It has revamped many of its schedules to permit one-day round trips to faraway points. By dint of hard work and more realistic scheduling, it has changed from having one of the worst on-time records in the industry to one of the best.

It was one of the early airlines to establish a self-ticketing plan for charge account customers. It was the first to redesign completely and simplify its timetables away from the old railroad method of columns of figures. It has succeeded at a number of terminals in speeding first-class customer baggage delivery so much that luggage beats passengers to the claim area.

Finally, it is now sending its salesmen out to sell the new image.

Scoreboard. Already Eastern has become famous for its no-frill, air bus flights from Middle West cities to Miami, and its spectacularly successful shuttle flights between Boston, New York, and Washington [BW Jun.10'61,p33]. These have succeeded in creating new travel instead of simply stealing business from the competition.

In short, whether Eastern ever returns to quite its old prosperity is a question. But one thing is certain. The airline will never be the same again. And the biggest beneficiary will be the passenger.

Wall Street lawyer. The major significance of MacIntrye's appointment is that he is not an old airline man; he didn't come up through the ranks. He's a corporation lawyer from Wall Street.

True, he's not a complete stranger to airline problems. At one time he was corporate counsel with officer status at American Airlines, Inc. For four years during World War II he was with the Air Transport Command. And he was Assistant Secretary of the Air Force under Pres. Eisenhower. But basically, his orientation is from the passenger cabin forward, not the cockpit back.

This, for Eastern Air Lines, is a tremendous change.

I. 'Mr. Eastern'

Like many other big trunk airlines, Eastern was dominated for years by one man. American has its C. R. Smith, Delta its C. E. Woolman, Pan American its Juan Trippe, and United its William A. (Pat) Patterson.

From 1938 until two years ago when he stepped up to chairman of the board, "Mr. Eastern" was always World War I ace, Captain Eddie Rickenbacker. Though he did not pioneer Eastern during its earliest years the way the others did with their airlines, he is still one of

commercial aviation's best known early pilots.

One-man show. Rickenbacker ran a one-man airline—and a magnificent airline it was from a profit standpoint. Eastern's primary objective was safety—as it still is; and its second was keeping planes in the air.

It had a policy of flying planes at Eastern's convenience, not the passengers'. As a result, the fleet was rarely idle but passengers often had to leave or arrive at uncivilized hours. Standby planes were also few in number.

Another Rickenbacker policy that endeared him to the stockholders but infuriated passengers was the cramming of first-class customers into three-and-two abreast seating.

Passengers' choice. With all this, Eastern began to get into an awkward situation that fed on itself. "Our reservations and ticket counter people could take only so much grousing about our service," says Robert L. Turner, executive vice-president for transportation services. "After a while, they began to snap back at the customers. Then, of course, complaints grew worse. And so did Eastern morale."

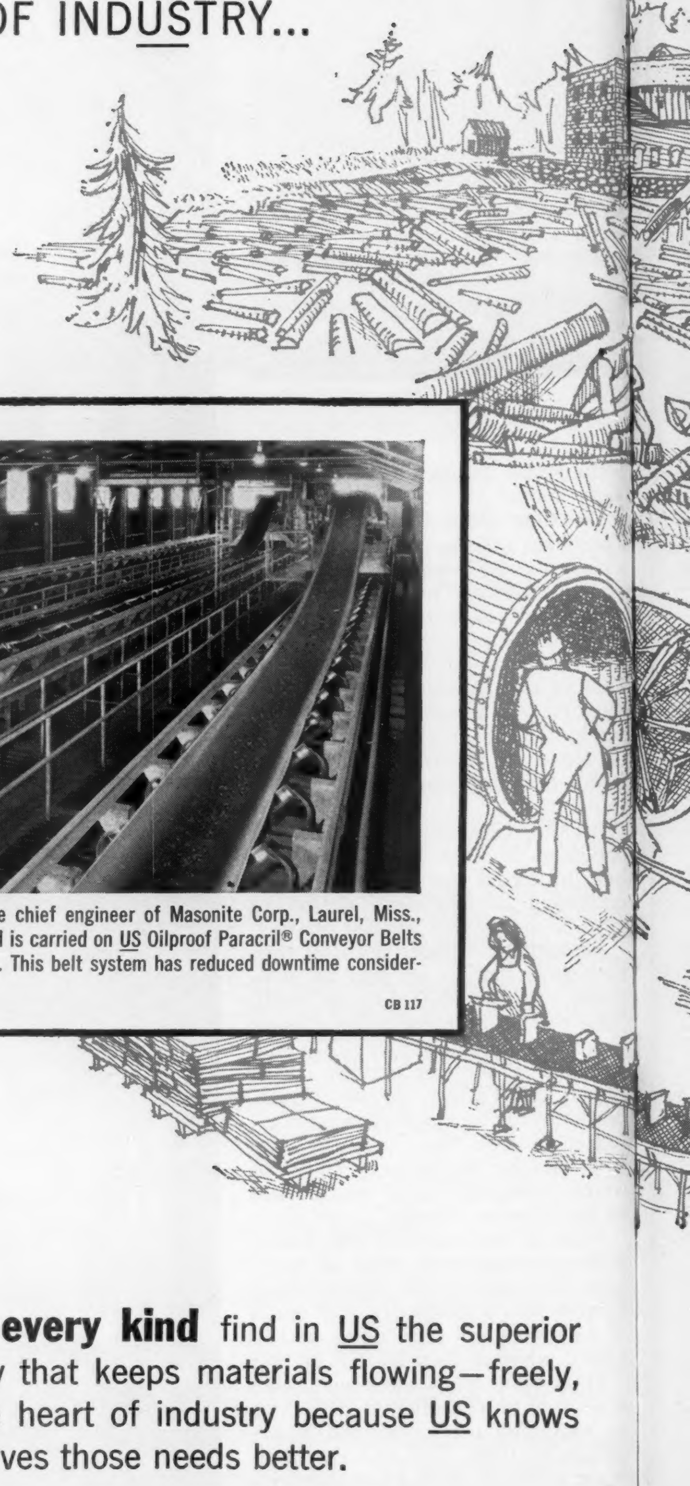
None of this mattered very much, in the postwar years, when air travel was burgeoning. In those days, Eastern had a monopoly over much of its routes and passengers had to take it whether they liked it or not.

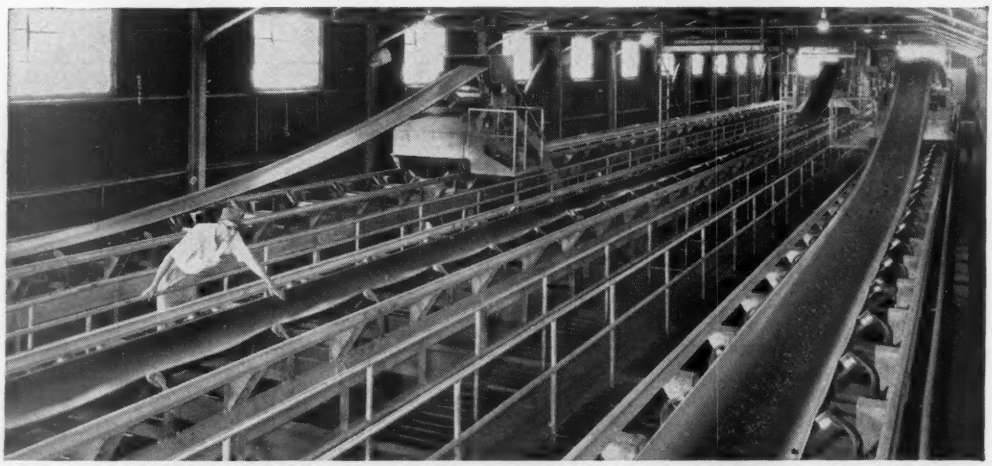
High-water mark. Eastern's profits amounted to \$2-million in 1945, rose to \$8.5-million in 1952 and \$14.7-million in 1956. This was the high-water mark. By 1959, Rickenbacker's last year, they had slipped to \$7.1-million and last year the company had a loss of \$5.6-million before special credits—a loss that would have been worse had Eastern not changed its method of recording cer-

New President Malcolm A. MacIntyre reverses Eastern's former policy of concentrating on flight operations rather than serving passengers.

US RUBBER

AT THE HEART OF INDUSTRY...





"We turn out 3,000,000 feet of board a day," reports the chief engineer of Masonite Corp., Laurel, Miss., "and our entire volume of wood chip required to fabricate the board is carried on US Oilproof Paracril® Conveyor Belts that operate 24 hours a day, 7 days a week over deep-trough idlers. This belt system has reduced downtime considerably, cut maintenance costs 25%."

CB 117

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Rickenbacker endeared himself to stockholders, not always to passengers.

tain costs. In the first half of 1961, the company had an operating loss of \$6.4-million, in part due to a strike by flight engineers. Since then, it has continued to pile up deficits.

II. Bombed by competition

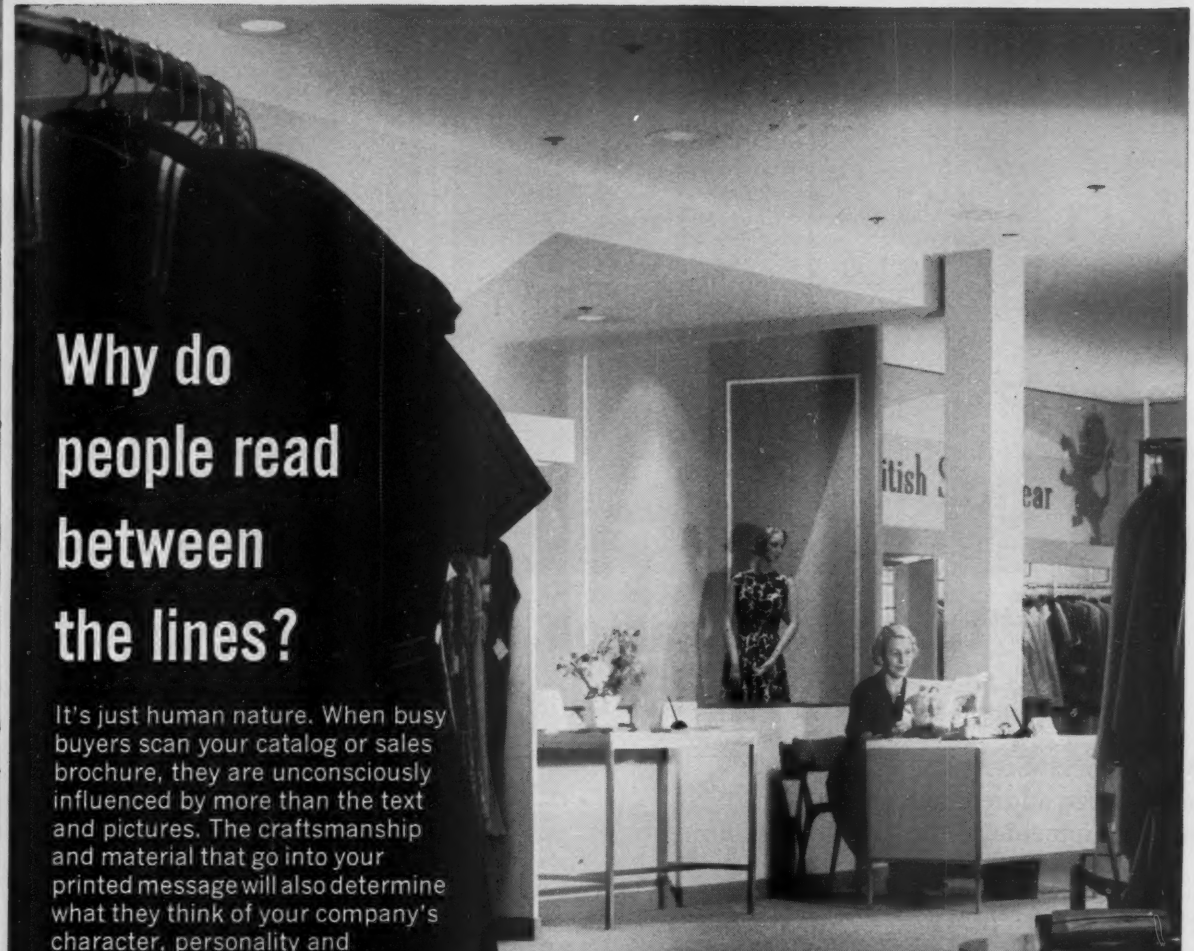
In all its effort to squeeze the greatest possible net out of every dollar of operating revenue, Eastern never scrimped on traffic development. It poured millions into providing service to points where there was potential traffic but insufficient existing business.

Until MacIntyre's day, Eastern had a policy of always flying more planes between its key points than the competition did, and often far more than the traffic warranted.

System breaks down. This is why many Eastern officials are still puzzled and hurt at the furious way cities throughout the Southeast fought for additional airlines. Since 1955, it has had every mile of its 24-state domestic network overlaid with at least one new competitor. Its passenger load factor—the percentage of available seats that are occupied—dropped from 61.08% in 1955 to 51.84% in 1959.

Although it wasn't immediately apparent, this is when Rickenbacker's basic philosophy stopped working. "The Captain taught us how to run a magnificent airline," says an Eastern vice-president and a heartfelt Rickenbacker admirer. "But he never taught us how to live with competition. None of our people ever had to go out and sell before."

Jets take over. The real trouble for Eastern came with the jets, as it did for many other carriers. No matter


Why do people read between the lines?
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how good an airline had been before and no matter how it had dominated its markets, jets made everyone go back and start over again. Eastern deliberately chose to wait for more powerful and advanced jets instead of having the first on its routes.

Even more significant, Rickenbacker actually cut back on the number of DC-8s he had ordered from 20 to 16 "after a reevaluation of Eastern's needs." Had all the airlines followed suit, the industry would be in far better shape today. But the other airlines did not, and so Eastern was left to stretch its meager equipment as best it could.

For the past two winter seasons, when Eastern's New York, Detroit, and Chicago-to-Florida business was at its peak, Eastern's competitors had more jets on each major route than it did by a ratio of four-to-one.

Trouble with Electras. Another problem concerned Electras. Besides its major routes to huge cities, Eastern serves a multitude of smaller, closely spaced points. To fly these segments, Rickenbacker ordered 40 Lockheed Electras, more than any other airline. But when these planes lost passenger favor after a series of crashes, Eastern was correspondingly hurt more than anyone else.

III. MacIntyre's legacy

This, then, was the situation that MacIntyre inherited: an airline that had been at the top of its industry, but with changing conditions it was slipping badly. To his everlasting credit, Rickenbacker was one of the first to appreciate this. The man he and the board chose to replace him was not a carbon copy, but an outsider with an entirely different approach. Essentially, 52-year-old MacIntyre represents a second generation in airline management, a man whose background is business rather than aviation.

Today Rickenbacker goes to work every day at Eastern's headquarters in New York's Rockefeller Center. At 71 he's still active and itching to run things himself, and certainly no policy decisions are made without consulting him. But the boss at Eastern is MacIntyre.

Grounded. One of MacIntyre's first major policy moves early in 1960 was to abandon the notion that Eastern had to fly the most planes between any pair of cities. He promptly grounded and subsequently sold many obsolete planes, lopping off 100-million seat-miles a month out of a total of 838-million.

Changes at the top. But besides selling planes and laying off employees, which at best was a de-

fensive maneuver, he recognized top management. Formerly, passenger service at Eastern was scattered around among several departments—as it is on most airlines.

MacIntyre set up a completely new department directly responsible to him that took over every function in any way related to the customer. Under this system, flight operations concentrate 100% on the mechanical function of keeping the airplane in operating condition; sales is divorced from everything but selling. All other functions—handling aircraft at stations, fueling, housekeeping, and all other related operations—are under the control of customer services.

This major organizational change was done to combat the gripes all customers make on all airlines: undependability of schedules, poor baggage service, no information, and confusion at airport check-in counters.

For the passenger. Since this change, yet another one has gone into effect. Beginning last July, customer services came under a new super department, headed by an executive vice-president, called transportation services. Besides customer services it includes operations, maintenance, and communications. In other words, everything that goes to make up Eastern's product is now the responsibility of one man.

Employee morale. One of the most successful things MacIntyre has done with his new management group and his new philosophy has been to improve employee morale. How well it has worked is illustrated by a story Turner tells:

Not long ago, he says, a reservations girl very politely interrupted a customer tirade against Eastern. "You can't say things like that about us any more, sir," she said. It was true once but it isn't any longer.

Another major drive by the new management team is to recapture passengers whom Eastern practically gave away to its chief competition—Delta, Capital (now United), Northeast, and National Airlines. Instrumental in this will be 15 new Boeing 720s, most of which will be put in service next month. These will be in addition to the 15 DC-8s.

Innovations. Simply flying more seats around, however, isn't going to put Eastern in the black next year. It has to sell itself to people who already fly, and it has to expand its market among people who don't.

To do this, it is upgrading its first-class service with such innovations as expedited baggage handling, and special waiting rooms for first-class passengers.

Commuter market. Another innovation to attract people already sold on flying is the commuter concept. This is the same old thing the short-hop airlines have been doing for years, only Eastern is utilizing the jet and turboprop's greater speed to increase the distance wherein it's feasible.

For example, of Eastern's 39 remaining Electras, 18 are devoted exclusively to commuter patterns—flying between pairs of cities 300 to 500 miles apart. These flights leave earlier in the morning and later in the afternoon to permit a businessman to transact a full day's business and still be home at night.

Air bus service. At the opposite end of the scale is Eastern's effort to offer minimum cost, no-frill service. This is designed to get vacation passengers traveling on their own money out of cars or buses. The fare for Eastern's air bus, for instance, was set at surface bus level plus an allowance for meals.

Surveys show this year that 9% of those using the air bus in winter were first flyers, and in summer 13% had never flown before; 20% of the people using the air bus had driven to Florida within the previous two years. This summer the load factor on air busses was the highest for the system except for the air coaches to San Juan.

Nowhere to go but up. For the future MacIntyre is optimistic. He believes that air travel this year has dropped to its irreducible minimum. He looks for the industry's business to rebound 5% to 10% next year. Never again, however, will airlines grow at the average rate of 17% a year compounded as they once did.

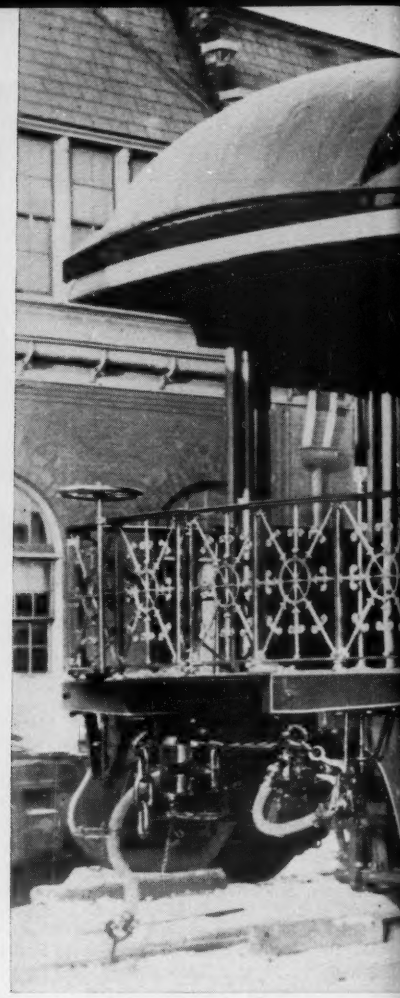
"Whether we must be tied to the economy from now on, or whether we can stimulate our markets faster than the economy, is the $64,000 question," he says. "I personally believe we can grow faster than the economy, at least in the business travel area."

Beginning next month, almost the entire Eastern jet fleet will be operating. The usual winter rush to Florida will be in full swing. The "bugs" in all the MacIntyre innovations will have been removed. With the economy rebounding, the industry hopes passengers are going to begin flying in greater numbers again, and with its newfound techniques, Eastern hopes to be capturing them.

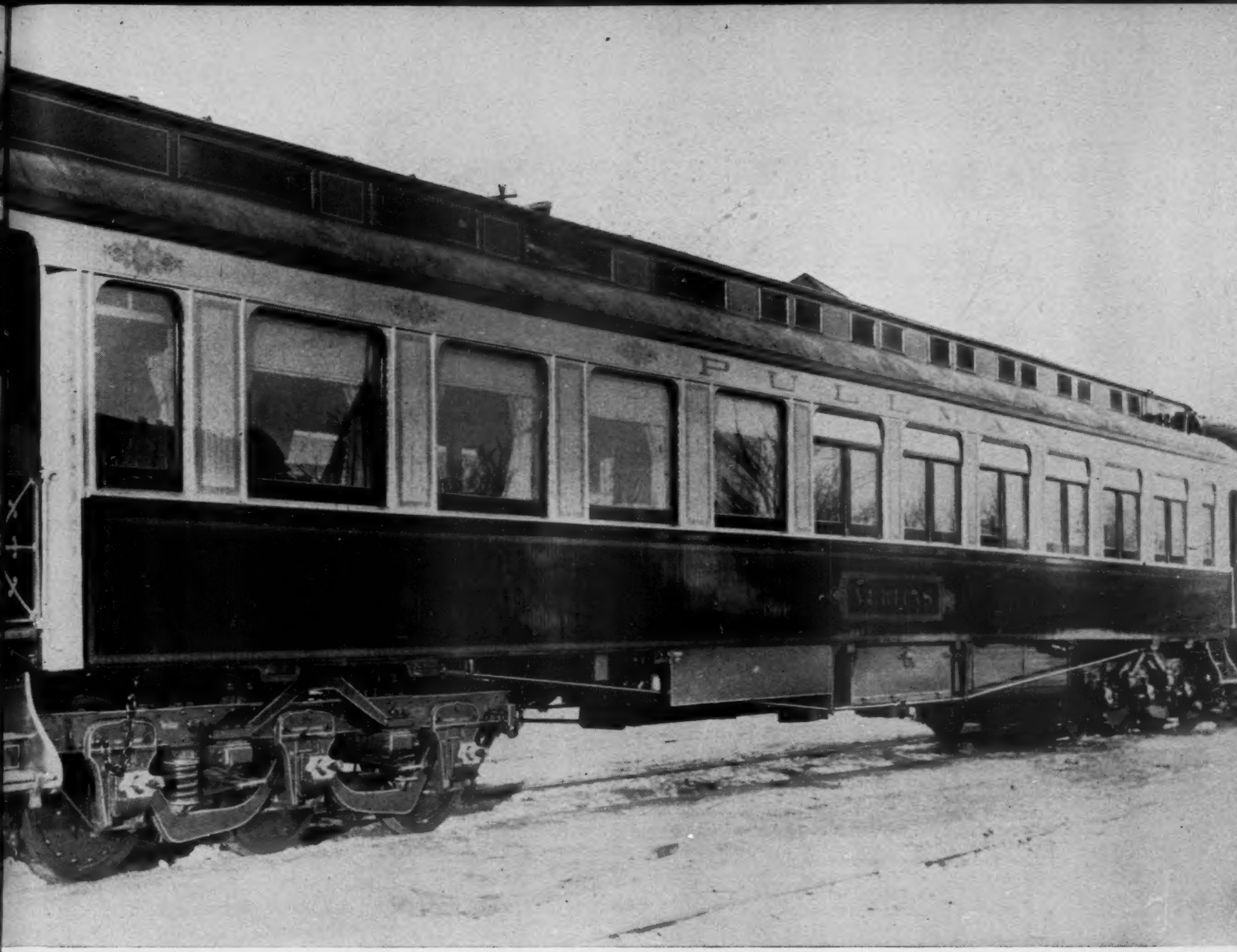
Up to now the total airline business has been so bad that Eastern's new look hasn't been given a fair chance. But this period is coming to an end.

As Turner says, "Now is the time Eastern Air Lines is going to have to fish or cut bait." **End**

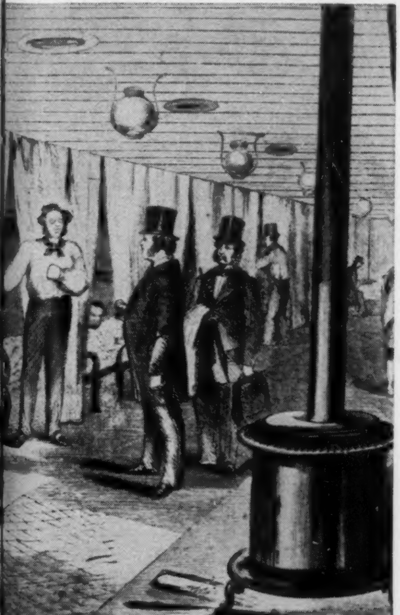
Interior of the Veritas was the ultimate in Victorian love seats, deep-pile carpets, inlaid ceilings, and gilt. Passengers who patronized this mode of travel would order the dollar dinner (with terrapin or porterhouse steak) that the road served.



One of the first sleeping cars, this one built by a Pullman competitor, Wagner Palace Car Building Co., is portrayed here as



Pullman's Veritas—a parlor car built for service on the Lehigh Valley RR in 1897—incorporated all the elaborate decor of the late 19th Century. From cars like these, the name "Pullman" came to signify all that was first class in travel.



e bui n on the New York Central RR. From this
Palac w the later, ornate cars of the turn of
as e century.

When Mr. Pullman put luxury on wheels

Lucius Beebe's book, Mr. Pullman's Elegant Palace Car, is a nostalgic journey back to the days when train travel was a grand—and profitable—affair

A harassed businessman, traveling recently from Washington to New York on the most luxurious flight airlines have to offer on that route, was startled to find his refreshments handed to him the minute he settled in his seat. The flight was of such short duration, he was told, that there wouldn't be time later.

The stewardess was certainly right. The executive says he just managed to bolt down a tray full of hors d'oeuvres and two Martinis before the wheels touched down in New York.

No one can deny that traveling has changed drastically since the days described by a book out this week, Mr. Pullman's Elegant Palace Car (pictures), by Lucius Beebe (Doubleday & Co., $17.50). In those days no one ever had to gobble.

19th-Century buff. Beebe is an unashamed admirer of the last years of

the 19th Century and the early part of the 20th. In both pictures and text he eulogizes all that was ornate.

"That George M. Pullman . . . contributed materially to the national well-being and taste for comfort is an inescapable conclusion to any survey of the part the palace cars played in the noontide of their riding," says the author. "That they may have been overdecorated is only the sterile judgment of an era that has produced nothing half so fine in any field of transport, decor, or the amenities of living."

Jump on competition. All the hand carvings, the gilt, the plush, and the hangings that characterized the sleepers, diners, and parlor cars manufactured by Pullman Standard had their beginnings in one very simple invention: the folding upper berth.

It was this feature that gave him such a jump on the competition that he ended up not only in building the most cars but in operating them as well.

No two alike. By 1916, Pullman Co., as differentiated from Pullman Standard, the car builder, "operated a total of 7,500 cars on trains of 137 railroads. More than 26-million passengers rode Pullman annually, occupying an astronomical 260,000 beds or berths every night."

What is extraordinary in all this is that of the thousands of cars Pullman produced in the grandest days, no two were alike. There was no such thing as mass production either inside or out.

Alas for such craftsmanship and individuality. In the end, Pullman Standard, American Car & Foundry (now ACF Industries, Inc.), and finally Budd Co., mass-produced sleepers, diners, and parlor cars that made up in air conditioning and improved springing what they lost in individuality. But even this didn't save the day.

End of line. Pullman Standard sold its last Pullman car in 1958. It expects never to build another. It had been obliged by the government to sell its operating subsidiary, which it did in 1947. Pullman Co., now owned by the railroads, is presently operating about 1,000 cars a day.

Berth passengers for the eight months totaled 2.5-million, down 15% from the comparable months last year—and a pitiful fraction of 1916's total.

Almost all of Pullman Co.'s equipment nowadays is lightweight and of postwar manufacture. True, some of the old standard Pullmans with open sleeping sections are kept in reserve—but only for military movements. **End**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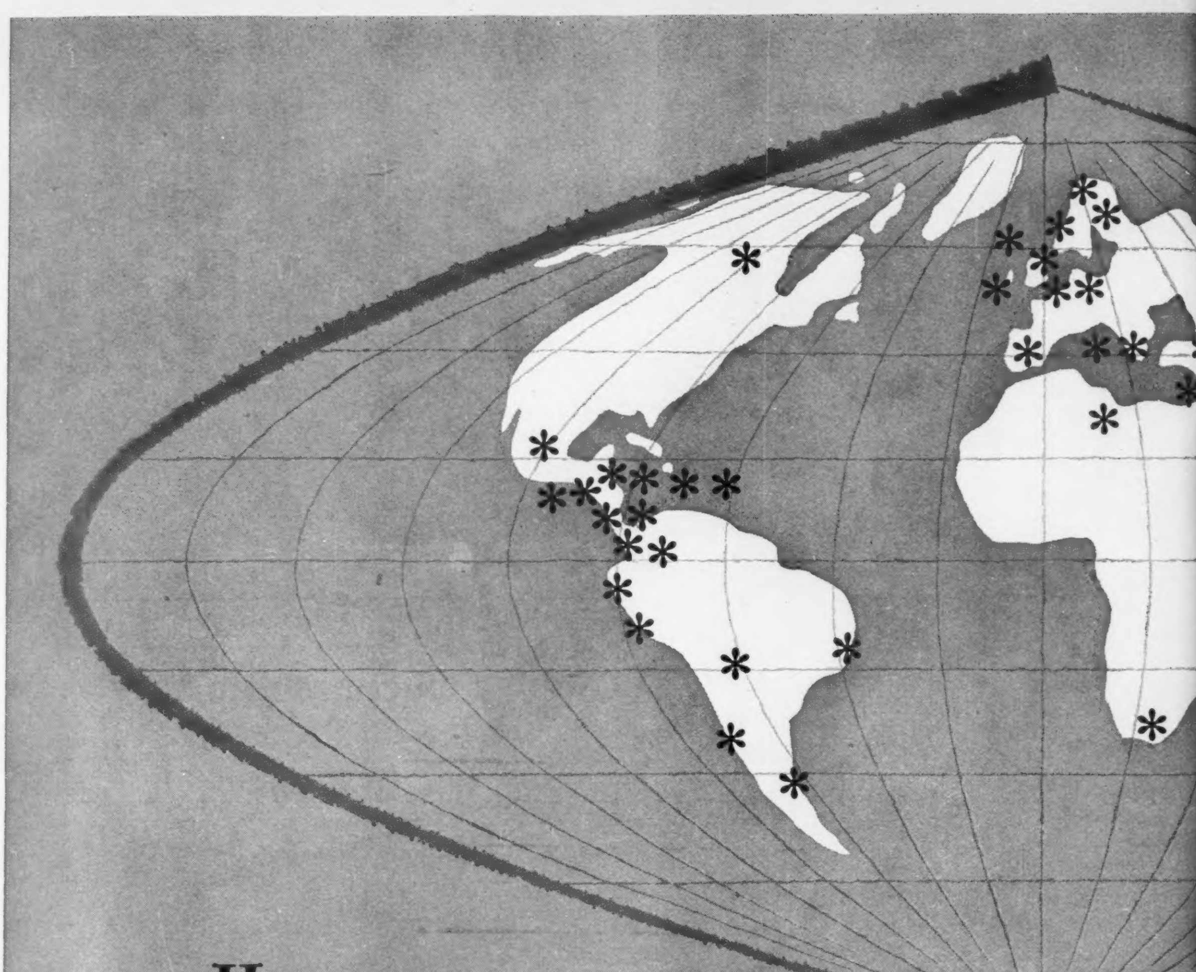

How C-E contributes to world-wide advances in steam

Recently, engineering executives from thirteen nations on five continents assembled at the General Offices of Combustion Engineering in Windsor, Connecticut to attend C-E's First International Technical Conference.

Over a five-day period, they discussed the most significant current engineering aspects of steam generation . . . examined the present state of the art and explored the new techniques and developments which are changing the complexion of power technology at an ever-increasing rate. In short, they took part in a world-wide interchange of new ideas in modern steam generating practice.

C-E, as a member of a team which includes associates, affiliates and licensees throughout the free world, believes that this interchange of knowledge is vital not only to the individual members, but to the team itself. In turn, this attitude assures users of steam generating equipment that, no matter the country, their equipment will be as modern as tomorrow, when it bears the insignia of the C-E flame.

Excerpts from message to Conference by Joseph V. Santry, Chairman, Combustion Engineering, Inc.

"Man stands today, at mid-twentieth century, knowing that the benefits of

ALL TYPES OF STEAM GENERATING, FUEL BURNING AND RELATED EQUIPMENT; NUCLEAR REACTORS;

C-E associates, licensees or representatives throughout the free world are located in 38 countries shown on the sinusoidal projection. These countries are:

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Australia	Germany	Norway
Bolivia	Greece	Panama
Brazil	Guatemala	Peru
Canada	Holland	Philippines
Chile	Iceland	Puerto Rico
Colombia	India	Spain
Costa Rica	Israel	Sweden
Ecuador	Italy	Taiwan
El Salvador	Jamaica	Turkey
England	Japan	Union of South Africa
Finland	Libya	Venezuela
France	Mexico	

generating practice

electric power have made possible remarkable acceleration in labor and capital productivity, have revolutionized his means of communication, and have eased the problems he encounters in the everyday business of living.

"Assembled at this Conference are guests from thirteen sovereign nations which together produced more than 670 billion kilowatt hours of electric energy in 1959. This figure is some 40% higher than the energy produced in these same countries just five years before.

"This trend will be maintained. It is our purpose to make certain that our world-wide team continues to set the pace for power progress."

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Europe says U.S. dumps chemicals

Governments charge our industry has undermined the price of polyethylene. France fines Spencer Chemicals, West Germany adds tough anti-dumping clause to tariff law

The U.S. chemical industry is under fire in Western Europe for its export pricing policies. There have been governmental crackdowns already—and there may be more.

- The French government last week revealed that it had slapped the international subsidiary of Spencer Chemical Co. of Kansas City with a stiff penalty duty on its polyethylene exports to France. The French charged the U.S. company with selling the plastic at prices unfairly damaging to French competitors. Spencer must now pay a special 6.43¢ import tax on every pound of polyethylene powder and pellet it seeks to market in France.
- West Germany has written a tough anti-dumping article into its new tariff law, coming into force in January. Armed with this new authority, Bonn's Economics Ministry has started investigating German charges of "alarming and damaging American chemical pricing practices."
- The European Economic Community (Common Market), which has anti-dumping agreements among its six members, has set up a study group to find means for the community as a whole or individual members to combat cost cutting by third parties. Major support for the idea comes from Holland, which already has appealed to Washington for action against U.S. chemical pricing practices.

Such charges are hardly new. In the past few years, European chemical makers have been grumbling that Americans were using Europe as a "dumping ground."

Some firsts. Now for the first time European governments are beginning to do something about it. The Paris action against Spencer, for example, is the first of its kind in France for 30 years. Previous to June, postwar West Germany had no meaningful anti-dumping law.

What is chiefly prompting European officials into action is a fierce price war in low-density general purpose polyethylene that began building up in Europe early in 1960. At that time PE was selling for about 30¢ a pound. By January this year, the price had slipped to 26¢. Since then, wild flurries of price cutting have hacked it below 20¢ in Britain, under 17¢ and—in some cases—as low as 11¢ on the Continent.

"As far back as 18 months ago," a Spencer Chemical executive says, "you could probably pin the blame on all U.S. companies—not just us—for injecting a downward thrust in price in France and Europe generally. In the past three or six months, however, the thrust has come from Britain, Italy, and Holland."

Spencer has not undercut other U.S. companies in the French market, the executive says. "All we've done is meet competitive prices; we've not created new ones. I simply don't know why the French singled us out for a penalty." The company hopes the government eventually will lift the tax.

Since PE frequently comes into West Europe through import-export agents in Switzerland, Holland, and Belgium, its origin is somewhat masked. But European chemical makers unhesitatingly blame American producers. Significantly, they say, the U.S. domestic price of PE has held up remarkably well at around 26¢ a pound during the European price warfare.

Smallish amount. Actually, the amount of American PE coming into Europe is not very great, though almost every major plastics-producing chemical company—from du Pont to U.S. Industrial Chemicals—is exporting it.

The Europeans argue that it doesn't take a lot of volume to start a downward plunge in prices. Take West Germany; with a domestic PE production of more than 70,000 tons annually, it imports less than 10,000 tons a year from the U.S. That's enough to give domestic purchasers or fabricators a lever to squeeze German producers down to lower price levels. European PE exporters—chiefly Britain, which sells about 4,000 tons a year in Germany—must also meet the lower price. German producers, in turn, must slice prices to move the 19,000 tons of PE they export.

The Europeans offer a variety of explanations for American pricing policies. Chief among them is overcapacity. Currently, U.S. capacity to make low-density PE stands around 750,000 tons a year. By the end of 1962, it will mount to 1.2-million tons.

Big volume. PE—typical of all plastic materials—can be manufactured economically only in large volumes. Thus, when PE's potential as a highly versatile plastic was first fully appreciated in the mid-1950s, U.S. companies who got into it had to do so on a big scale. U.S. industry circles are confident that an expanding PE market is ahead, that today's overcapacity is tomorrow's minimum requirement.

In any event, of course, U.S. chemical executives would have been focusing their sales effort more on West Europe than previously. The industry wakened to the market potential of West Europe with the emergence of the EEC and the prospects of the EEC merger with Britain and the rest of the European Free Trade Assn.

At the moment, polyethylene is the major problem so far as Europeans are concerned. But complaints against U.S. exports of other chemical products are growing more outspoken.

A French deputy last week, during the annual budgetary debate, accused American producers of flooding the French market with a wide variety of chemicals. He cited a 35% price reduction of acrylic nitrite by one U.S. company last July. French producers also claim that U.S. methyl alcohol and ethylene glycol (basic component in antifreeze) are being sold at 20% to 25% below prevailing market prices.

But European complaints include other chemicals, too. Kurt Hansen, president of Germany's largest chem-

ical maker, Farbenfabriken Bayer A.G., says: "Even though we don't make PE, we are worried that dumping will spread throughout the plastics and synthetic fiber field where we do have a large stake."

Another German chemical executive picks polypropylene as a specific example. In this product, he says, American companies also are building capacity at a rapid rate; if the predicted market doesn't materialize quickly, the same sort of thing could develop with polypropylene as with PE.

Reluctance. Normally, European governments are reluctant to take formal action. Indeed, some German chemical men say Economics Minister Ludwig Erhard has tolerated U. S. sales as a means of meeting strong demand in the German economy.

The French are much less liberal than Erhard, but Paris nevertheless held off using its tough law, on the books since 1958, until the Spencer action last week.

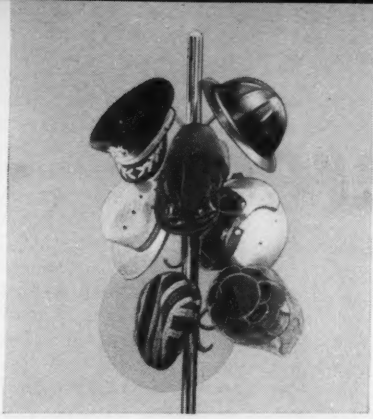
The Paris action, industry observers say, could trigger a series of similar moves throughout West Europe against U. S. polyethylene exporters. British PE producers are thinking of applying jointly to the Board of Trade for an anti-dumping order against Americans. And meetings of German chemical industry leaders with the Economics Ministry, expected to take place within the next few weeks, could bring the unsheathing of Bonn's new anti-dumping legislation.

The new attitude of European governments stems only partly from the current pricing situation in PE. Officials are showing sympathy with another industry argument—that while Europe holds to liberal tariff policies on U. S. chemical exports, the U. S. has stiff tariffs against European chemical makers. In the past, of course, U. S. companies have accused the Europeans of dumping certain chemical products, including dyestuffs, in the U. S. market.

On chemical products other than PE, European governments would prefer to refrain from using anti-dumping decrees. What they would like to do is convince Washington, as well as individual U. S. chemical companies, of the seriousness of the situation and get voluntary agreements to stop "unfair pricing practices."

European officials already have approached various U. S. embassies.

Says one embassy official: "Even if American companies don't get hit with anti-dumping decrees, this situation is going to hurt us anyway." **End**



THE 7 HATS OF BORG-WARNER . . . (top) national defense; oil, steel and chemicals; (middle row) agriculture; industrial machinery; aviation; (bottom) automotive industry; home equipment.

From under the 7 Hats of Borg-Warner...

News of advanced auto transmissions now in '62 models!

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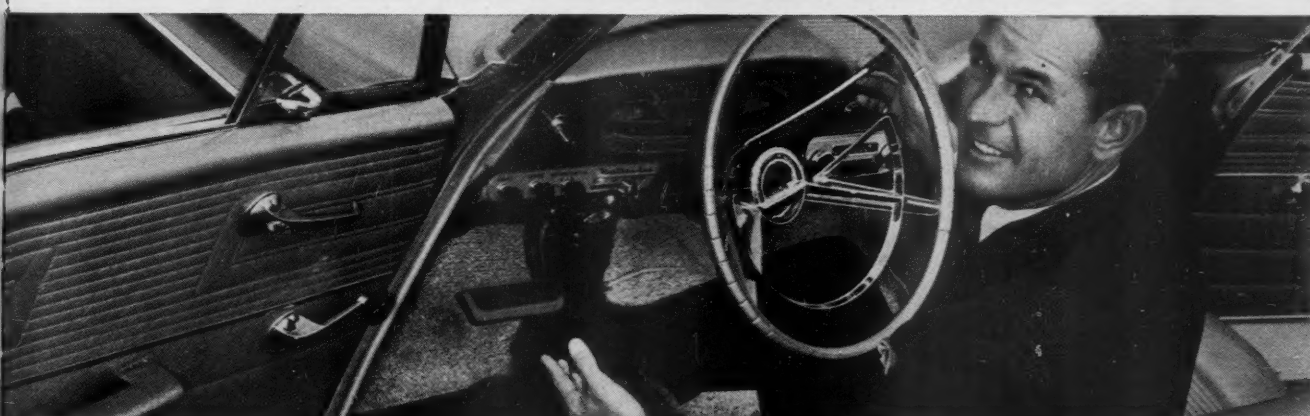

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For more export credit

Export-Import Bank's plan has two ways to encourage more U. S. exports, thus to ease balance-of-payments problem

A new feature is a scheme to insure credit for exporters, with the risk shared by Ex-Im and insurance companies

The Ex-Im Bank will also modify its program of guaranteeing private credit on exports, more to lenders' tastes

Exporters are carefully studying an Export-Import Bank credit program, announced last week, that aims at encouraging U. S. sales overseas in the face of rugged foreign competition.

On balance, the plan looks good to them. If it is effectively administered, exporters agree that it should enable them to offer more credit to foreign buyers on short and medium terms. They are, however, reserving final judgment until yearend, when details—including rate schedules for the credit insurance—are to be made public.

A better deal. The Ex-Im financing plan has been in the works since last February as part of the Administration's export drive. It recognizes the need to offer a better credit deal as part of increasing competition in world markets with European exporters now that European delivery dates are getting shorter.

U. S. exporters hope that, if the plan works out as well in detail as it does in outline, they can offer at least as good a financing deal as their overseas competitors can.

On short-term credit (up to 180 days), the foreign buyer won't have to put any cash down; on medium-term deals (between 180 days and five years), he will have to make a cash payment of at least 10%. Ex-Im now requires 20% cash in such cases.

Two-way plan. Officials in Washington saw a need to make the program comprehensive and attractive if they were to get enough exporters to take advantage of it. In the long run, they look to increased export sales to help ease the imbalance of payments.

As a hangover from the early postwar days when worldwide scarcities made U. S. goods salable on almost any terms, many exporters have been accustomed to dealing only in cash or on letters of credit. In today's buyer's market, an inability or unwillingness to offer competitive credit terms can lose sales.

After sifting through various plans [BW Mar.25'61,p32], Ex-Im decided on a double-barreled approach to the problem: (1) to expand export insurance coverage and (2) to free more short-term and medium-term credit from private banks.

How it works. On the credit insurance side, the plan works like this:

The insuring will be done by the new Foreign Credit Insurance Assn. (FCIA), a voluntary, unincorporated group of major companies that are chiefly in the marine and casualty fields. It has 21 members so far, but other financially qualified companies are eligible to join. Claims will be prorated among members according to the amount of their participation in the pool.

In the first year of operation, the board of governors will be made up of representatives of Continental Casualty Co., of Chicago; Firemen's Fund Insurance Co., of San Francisco; Great Northern Insurance Co., of Minneapolis; Insurance Co. of North America, of Philadelphia, and Liberty Mutual Insurance Co., of Boston.

FCIA has contracted with Ex-Im to provide a single comprehensive-risk policy, available through its members' brokers all over the country. At least at first, FCIA and Ex-Im will share the commercial risk, such as losses through insolvency of the buyer or protracted default on the debt; Ex-Im alone underwrites the political risks, such as civil strife, cancellation or restriction of trade licenses.

Clearing up points. Exporters will be required to insure their whole business volume—both good and bad risks—rather than carrying insurance only on selected risks. Premium rates won't be worked out until yearend, but officials say they won't be so high as to raise the prices of exported goods.

The whole idea, they point out, is to cut the selling price to the foreign buyer by eliminating his cash down-payment (short term) or cutting it in half (medium term). They suggest, though, that premiums will be higher for exporters of machinery and other finished goods that offer greater profit margins. And premiums will vary according to country.

Still to be worked out are details of how credit ratings on foreign buyers are to be obtained and what kind of claims-processing setup will have to be created.

Insurance coverage. Outlines of the FCIA plan make clear the main points of coverage and the sharing of risks.

For every $100 of short-term credit, the exporter must assume the commercial risk up to $15 and the political risk up to $5 or $10, depending on such factors as the nature of the transaction and the number of transactions to be insured.

The remaining $85 of commercial risk would be insured, with FCIA and Ex-Im sharing the underwriting risk equally; Ex-Im would assume the $90 or $95 in political risk. No cash would be required from the foreign buyer.

In a medium-term transaction, the political risk would be underwritten on the same terms, but the commercial risk is handled differently. The foreign buyer would have to put up $10 on each $100; the exporter would have to assume the commercial risk on 15% of the remaining $90—which means $13.50. The remaining $76.50 would again be insured with FCIA and Ex-Im sharing the risk equally.

Small exporters. A special offer will be made to small exporters through FCIA, in hope of encouraging them to go more aggressively after foreign markets. Exporters who

have sold less than $50,000 worth of goods abroad in the preceding year will be eligible; the policy will be limited to two years or $100,000 in volume, whichever comes first, and it will not be renewable.

This policy will cover 90% of all losses, commercial or political. Coverage will be on a deal-by-deal basis, permitting the exporter to insure selected risks rather than all, good or bad. This cuts his premiums. Only short-term coverage will be available, on a flat fee regardless of market or credit conditions.

Stirring up more money. The second part of the new program is made up of new Ex-Im guarantees to commercial banks and other lenders for non-recourse financing of exports. It is designed to make more credit available to exporters, and to make it available from their local banks rather than primarily from Ex-Im in Washington.

Ex-Im will guarantee export credit loans by private lenders, covering only the political risk in short-term loans and both political and commercial risks in later maturities of a loan. Guarantees will be available only in cases where the private lender doesn't ask Ex-Im to participate directly in the loan. As in the FCIA insurance plan on medium-term financing, the foreign buyer must make a cash downpayment of at least 10% of invoice value, and the exporter must be responsible for 15% of the balance.

This plan was devised to meet commercial bankers' criticism of the present Ex-Im program for guaranteeing commercial export loans. Many banks said they didn't need credit-risk guarantees on short-term loans but wanted—at lower fees—guarantees solely against political risks. For the medium term, however, banks were reluctant to invest in export loans without guarantees against commercial as well as political risks.

More flexible. Ex-Im officials assert that the new system of more flexible guarantees goes a long way toward meeting such objections. It should make it possible, they say, for commercial banks to have greater freedom in managing their paper by disposing of medium-term export paper to Edge Act corporations and possibly other financial institutions.

Some banks feel that Ex-Im's guarantees still do not go far enough. They feel that Ex-Im should guarantee against virtually all risks involved in export credit. But Ex-Im officials believe on the basis of soundings so far that enough banks find its terms reasonable to make the program a success. **End**

Britain: Slowdown bolsters sterling

This is the first of a series in which Business Week will report at regular intervals on the business climate in countries where U. S. companies have an important stake.

Under the pressure of the Macmillan government's tough monetary policy, the British economy is moving into a mild recession. Gradually and deliberately, Britain is cutting down the large deficit in its international payments—a fact that helps explain the present strength of the pound.

Faced last spring with the threat of another sterling crisis, the British government sternly balanced its budget in April. Then, in July, it put the bank rate up to 7% and directly squeezed bank lending. It also imposed a 10% surcharge on all excise duties, and called for a "pause" in wage increases—wages have been going up at least twice as fast as productivity.

Early in October, the government cut the bank rate by ½%. While this doesn't indicate a change in basic policy, British business feels the move could mean that the government may really ease up after a few more months. At midweek, there were indications that another bank rate cut, perhaps a full 1%, would be coming soon.

Pace slackens. Signs of the enforced slowdown in business activity were clearly visible by mid-September. Total industrial production was flattening out. Bank loans over the previous two months were cut drastically, and the London stock market had entered a steep decline—partly due to the grim international situation, but mainly to the shrinking profit margins displayed in corporation reports. The market may be in for another blow soon in the form of a tax on short-term capital gains.

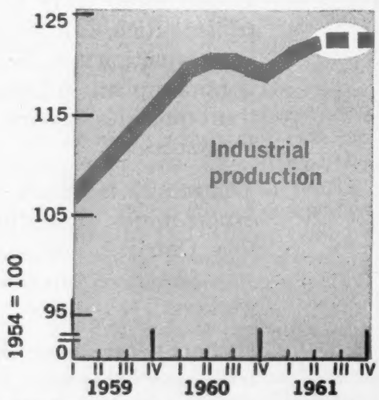
Capital outlay by manufacturing industry, which rose almost 20% between 1959 and 1960, probably will be up another 20% in 1961. But preliminary estimates of industry's investment plans for next year indicate a drop of at least 3%.

The labor market, too, has been changing. The labor shortage in the main industrial areas is no longer as acute as it was several months ago. Though the total of men out of work still is below the number of reported vacancies, it looks as if the reverse will be true by the end of the year.

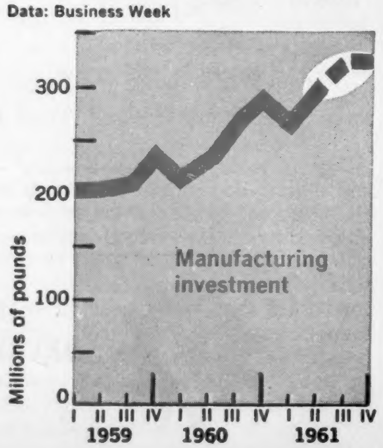
All this is the price paid to nip this year's reviving inflation in the bud and thus strengthen the pound. By itself, the $1.5-billion received by London this summer from the International Monetary Fund wouldn't have helped sterling for long. Moreover, the IMF credits have to be repaid within three to five years.

Crucial issue. Today, the main uncertainty lies in the area of labor relations. The success or failure of official policy will depend considerably on whether there is a pause in wage increases. The government believes a slowdown in wages is vital if Britain is to hold its own on entering the European Common Market.

In the case of government workers, school teachers, civil servants, and employees of nationalized industries, the government is determined to refuse or postpone wage increases for some time ahead. Private industry is ready to follow suit. The major obstacle, however, is the British trade unions, which are in an angry mood. Some strikes seem inevitable.



Data: Business Week



Personal spending. Consumer spending, meanwhile, has remained high and pretty steady. But there has been a shift from durables to softgoods and food since excise taxes were hiked in July. Competition in household durables—much of it from imports—has grown very tough, and some producers are being squeezed out. Even in textiles, the prospects are for a downturn.

The forecast is that personal spending will stay level in the months ahead, but the shift away from durables will continue for a while. Auto plants are working at 70% of capacity and face a rather bleak winter.

In capital goods, orders generally are high and in some cases rising. An exception is shipbuilding. Machine tool orders from foreign customers have been rising all this year and still are going up, with West Germany now the second biggest market. Domestic orders have fallen since the big hump of the auto industry expansion last year, but otherwise they are still above the postwar average.

The steel industry, which has gone in for heavy plant expansion, is not producing at full capacity. This is due to the drop in demand from shipyards and auto plants. But steel experts are rising slowly.

Two goals. In putting the lid on the boom that threatened sterling, the government has been primarily interested in achieving two results—getting imports down, and improving management's bargaining position for the next round of wage demands.

Considerable success already has been achieved in the case of the first goal. The huge gap that developed last year between imports and exports now has almost disappeared. And the latest forecast of the National Institute of Economic & Social Research predicts that Britain will have a sizable surplus on current account by mid-1962.

Whether the government will succeed in getting a wage pause is another matter. If it doesn't, then the balance-of-payments position could again become critical. **End**

In business abroad

Tax on short-term capital gains to be introduced soon in Britain

A proposal to tax short-term capital gains will be introduced in the British Parliament soon, possibly well before the annual budget is announced next April.

Selwyn Lloyd, Chancellor of the Exchequer, says gains from buying and selling securities and real estate for quick profit will be treated in the future as taxable income. The assumption behind this is that short-term deals are intended to yield what is, in effect, spending money.

No details are yet known about the maximum period, rate of tax, or the range of items to be covered. But the London Stock Exchange expects that stags—free riders on new issues—will have their profits taxed, as will the large band of speculators who buy and then sell stocks inside the account—within the two- or three-week settlement period in which they don't have to pay for the shares.

The government is proposing this tax to help satisfy demands of labor unions for some curb on profits in exchange for their toleration of a pause in wage increases (page 116).

Coal import quotas stir opposition in six-nation European group

The Council of Ministers that serves the European Economic Community, the European Coal & Steel Community, and Euratom has given a cold reception to the first attempt to establish European coal import restrictions.

The plan, drawn up by the Coal & Steel Community with the approval of EEC, called for **quotas on coal imports from outside the six-nation community, a high duty on any imports above these quotas.**

Backers of the plan had hoped for approval of this modest step toward complete energy coordination in the six nations. However, representatives of all countries but West Germany opposed the plan. Especially vehement in their opposition were the countries with little coal of their own: Italy, the Netherlands, and Luxembourg.

The opponents carried the day with the argument that to have a coal import plan without parallel import controls on oil **would only protect coal at artificially high prices,** while fuel oil prices would be left free to drop even lower.

Foreign oil refineries now welcome, but India sets conditions for approval

Indian officials have informed visiting U.S. businessmen that foreign private investment in oil-refining ventures will be welcome in the future. Foreigners already own refineries in India, but government policy on this point has vacillated.

The Indian government sets these conditions for oil-refining projects:

- The foreign investor will underwrite the total foreign exchange cost.
- The Indian government will participate as a 51% shareholder. Where this is not possible, the Indian government will hold 50%, with an option to buy the balance of outstanding shares after a given period.
- Indian nationals will be employed insofar as it is possible. Training will be instituted to provide qualified Indian personnel for all positions as soon as possible.
- The refinery would be entitled to adopt, without fees or royalties, technological developments by the foreign participants.

These conditions indicate the cautious approach of India toward foreign investment in key industries. To speed economic progress, Indian officials wish to attract foreign investment, but only as it fits into the five-year economic development plans.

British boost exports to U. S. in quarter but sales to Canada drop sharply

British exports to the U.S. jumped 22%, from the second to the third quarter of this year, the British Board of Trade announced last week. The total for the quarter was $202.6-million.

Biggest increases were in shipments of whiskey (up 32%), chemicals (26%), machinery and instruments (23%), woolens and worsteds (22%), and iron, steel, and nonferrous metals (17%). The rise, however, was offset by an equally sharp fall in exports to Canada, which slumped to $137.2-million in the third quarter.

Japanese businessmen show deliberate caution in expanding trade with Red China

Japan's International Trade Promotion Agency, a private trading corporation, reports that **Japan's trade with Communist China since late last year has almost balanced around $18.2-million each way.**

This is a particularly controversial and sensitive issue in Japan. Many Japanese businessmen want to expand their exports to the vast China market, and others wish to import raw materials from China rather than from more distant sources. **But political pressures from both Communist China and the U.S. have caused the Japanese to move cautiously.**

Since Japan resumed trade with Communist China late last year, its exports to that country have included steel, paper, fertilizer, textile products, machinery, tape recorders, transistorized measuring instruments, chemicals, bearings, electrodes, and synthetic resins.

Principal imports from Communist China have been pig iron, soy beans, coal, tin ingot, cashmere, salt.

Socal thrives on unbalance

Now that it has matched its flow of oil with new markets, Standard Oil of California is looking to its new president, Otto Miller, to upset the balance again

It's doubtful that any new president of a large corporation ever received so paradoxical an assignment as that which confronted Otto N. Miller (cover and picture) this week when he became president of Standard Oil Co. of California.

In effect, Chmn. R. Gwin Follis (cover and picture, page 124), chief executive officer of the San Francisco-based international oil company, put it to Miller this way:

"We've spent the last 20 years tidying up this operation. We've pretty well balanced our refining capacity with our crude supplies, expanded our markets to absorb the increased refinery throughput, bolstered our position with a strong line of petrochemicals, streamlined our organizational structure from top to bottom. We've got a comfortable, well-balanced, efficient oil company. Now, let's see what you and I can do to throw it out of balance again."

The goal. Follis didn't say this, of course, but it hews to the pattern of his ambition for Standard of California, which under his chairmanship has become the largest industrial enterprise west of the Mississippi.

"Our goal now," he told Business Week, "is to become completely distorted again—say, by finding another Saudi Arabia. We'd be glad to go through that all over again."

That's the Socal chairman's way of saying that there's no room for complacency in the oil business, particularly in an era when world events have taken the zip out of profit margins [BW Oct.14'61,p82].

Pres, Miller faces no easy task. For one thing, he has to fill the shoes of a star performer, T. S. Petersen, president since 1948 and probably the company's No. 1 salesman.

Ted Petersen, who retired this week, started as a gas-pump jockey in a Portland (Ore.) filling station in 1922 and worked his way to the top through the company's marketing organization.

Many-sided executive. Miller, by contrast, is no marketing man. Nor would he brook classification as a specialist in research, or manufacturing, or transportation, although he has been all of these at Socal in the 27 years since the University of Michigan awarded him a Ph.D. in chemical engineering. Miller at 52 represents the new breed of oil executive, experienced in all the facets of the business and charged with coordinating them.

From the ramparts that Follis and Petersen built, though, Miller is looking into the teeth of a tough marketing struggle. And not only on the Pacific Coast, Socal's primary marketing area, where the recent invasions of the Eastern giants have induced some vicious price wars. These brought on a federal grand jury investigation that is still under way.

A few months ago, Follis concluded the acquisition of Standard Oil Co. (Kentucky), a strong marketing organization that blankets Florida, Georgia, Alabama, Mississippi, and Kentucky. Integrating Kyso into the Socal complex in the face of what's certain to be an animated scramble for the Southeastern market will be a challenge to Miller's marketing skills.

I. Socal goes global

The Standard Oil Co. of California that Miller views from his 18th floor presidential office bears a family resemblance, but not much more, to the one that hired him as a process researcher in 1934 at the El Segundo refinery near Los Angeles.

Socal, says Follis, has been transformed from "a local West Coast company with a high concentration in a rapidly growing area into an international company with a high degree of diversification." Pacific Coast operations once accounted for virtually all the company's income; today they produce only about one-third of a much greater whole.

Key investments. The key to the change was an earlier generation's investment in the Middle East that has returned handsome dividends. For 18 years starting in 1929 the "local West Coast company" poured multiple millions into the search for oil on Bahrein Island and in Saudi Arabia before it hit the jackpot. The cash investment reached a peak of \$75-million before partners came along to share the risk. Now it's carried on the books at \$32-million, but Socal's equity in the assets of the joint ventures is estimated at \$491-million, and the dividends to Socal last year were \$113-million.

When the foreign oil started to flow, California Standard was knocked out of kilter—in a way that delights the chairman of the board. Lacking the capacity to refine all that Middle East crude, the company undertook a 50-50 venture with Texaco to market it. This project ultimately blossomed into what is known as the Caltex group of companies, a fully integrated oil complex with 16 refineries and 135 tankers that operates in 70 countries in the Eastern Hemisphere.

A classic example of a dog-wagging tail was Socal's Saudi Arabian venture, pieces of which it sold to Texaco, Jersey Standard, and Socony Mobil. Last year, the wells of this jointly owned Arabian American Oil Co. spewed out a daily average of 1.2-million bbl. of crude. That's close to 10 times the volume of Socal's daily production in the mid-1930s.

Marketing alternatives. But crude supply is only the start of a long and expensive cycle for an integrated oil company. You can sell the crude to other refiners, your competitors, at least until the market is overrun as it is today; and then you're at the mercy of soft prices. Or you can run it through your own stills and catalytic crackers and market the products—and you will if you're looking for optimum yield on your investment.

This alternative, however, calls for a massive transportation and distribution system of tank ships, tank trucks, pipelines, and bulk stations, plus an aggressive marketing organization built around a vast network of retail filling stations.

This is what Gwin Follis means

New president of Standard Oil of California, Otto N. Miller, brings broad range of skills to his new job

A profile of wire forming quality is cast by clutch vibration dampener spring on contour projector in Cuyahoga Products Corp's. quality control laboratory. Function of double-torsion spring is to soak up rattles in auto clutch. It's made from Pittsburgh Steel Company's oil tempered wire.

Cuyahoga Products Corp. Gets . . .

Long Production Runs—Precision Springs From Pittsburgh Steel Wire

Controlling the dynamic forces inside a clutch takes a special degree of strength and toughness in high carbon wire springs.

Cuyahoga Products Corp. of Charlotte, N. C., helps automotive clutch manufacturers do the job with pressure-plate and vibration dampener springs made from oil tempered wire.

Pittsburgh Steel Company is one of Cuyahoga's principal suppliers of oil tempered wire—as well as hard drawn MB spring wire, low carbon bright and galvanized wires.

Cuyahoga Products ranks as the South's biggest manufacturer of springs and wire forms. Following consolidation with American Spring of Holly Inc., Holly, Mich., it's newly installed in a modern, 400-man plant in Charlotte's Arrowood industrial district.

Automotive applications count for a substantial part of Cuyahoga's production.

And for measurement of Pittsburgh Steel wire quality, there's no better yardstick than consistent performance in the long production runs of precision-formed automotive springs.

Why does Cuyahoga specify oil tempered wire for its hundreds of applications of this type? John L. Moran, Vice President—Manufacturing says it's: ". . . because oil tempered has the physical properties necessary for extremely precise forming, and for greater fatigue life under high stresses."

Cuyahoga's supervisor of inspection and quality control added:

"In our sampling program, we'll allow a supplier a small margin of deviation. Then if their wire exceeds that, we correct matters simply by switching to another source.

"Pittsburgh Steel's wire shows up very well. Offhand, I can't recall any complaints about it—either here or when we were located in Cleveland."

Clutch plate—pressure springs are just one of thousands of types of springs and wire forms Cuyahoga is called on to produce.

But they represent a typical use of Pittsburgh Steel's oil tempered wire in jobs where precision form, uniform strength and faithful performance under high stress are critical.

Surface quality, ductility and tensile strength (narrower than commercial tolerances) are vital to Cuyahoga from standpoints of trouble-free production and quality control.

Cuyahoga produces one particular size of pressure-plate spring for a big automotive clutch manufacturer from Pittsburgh Steel's .177-inch oil tempered wire.

With closed ends ground square and chamfered, the spring contains precisely 5.6 coils, including 3.46 active coils, with a free length of 1.274 inches and an .875 inch O.D.

Compressed to 1.069 inches, each of five consecutive samples must register a load of 233-253 pounds in quality control load tests made every hour on production runs, as well as at each set-up and coil change.

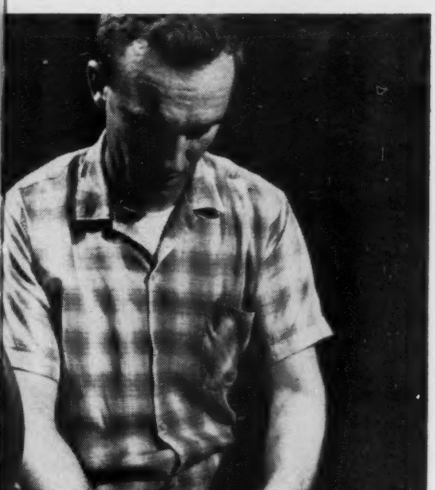
Because a friction clutch becomes a veritable beehive in operation, Cuyahoga also calls on oil tempered wire for toughness and fatigue resistance necessary to soak up clutch vibrations.

Produced on a 4-slide machine from .091 inch O.T. wire, this vibration dampener consists of a $2\frac{3}{16}$ inch double-torsion spring containing two $\frac{7}{8}$ inch O.D. turns and mounting lugs at each end.

Mounted in sets of six to provide a precise $\frac{13}{16}$ inch gap between clutch cover and pressure plate, dampener springs serve to eliminate a major source of irritating rattles.

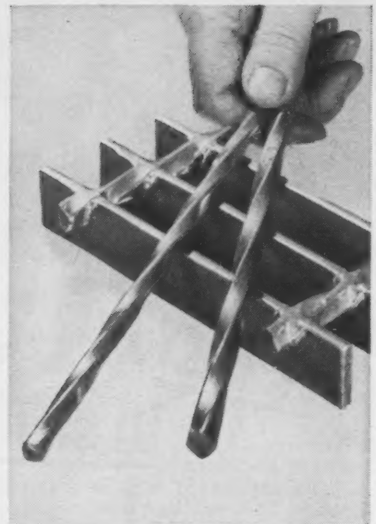
Investigate Pittsburgh Steel's oil tempered wire for your own spring applications where steady, reliable performance are "musts" for profitable production. Helpful service and quick delivery from ample wire stocks are part of the Pittsburgh Steel package, too. Just contact one of the district offices listed on the adjoining page.

One of 65 types of auto door lock linkage systems produced by Cuyahoga Products, lock rod above is produced on specially adapted 4-slide machine at rate of 2,000 pieces per hour from .160 bright basic galvanized wire—much of it supplied by Pittsburgh Steel Company.



Precise forming, long service under tough conditions are required of clutch plate pressure springs. Made by Cuyahoga from Pittsburgh Steel's .177 oil tempered wire, springs above are being ground square and chamfered.

Fatigue life, toughness of Pittsburgh Steel oil tempered wire are ideal for the job this clutch anti-rattle spring must perform.



Ardox, Spiralled Wire Is Designed to Save You Time and Money

Production benefits grow quickly into dollar savings when you use spiralled Ardox wire, a new product from Pittsburgh Steel Co. This pre-shaped wire, designed for industrial grating and ornamental iron applications, is also delivered ready for fabrication into furniture and decorative housewares.

The uniform spiralled shape is achieved at the mill. Costly, time-consuming twisting operations in your plant are eliminated. You save time, labor and equipment. Because Ardox is cold drawn into its final shape, basic metallurgical qualities remain unchanged and you get more uniform strength.

Special dies used in the cold drawing process give Ardox a fine surface finish. Spirals are more precise and uniform. Painted or plated Ardox looks better and lasts longer. A special, double spiralled patterned surface design is also available.

Made of low carbon steel, or to your own analysis, if desired, Ardox is provided in any desired straight lengths. Diameters to your specifications.

Pittsburgh Steel Company

Grant Building • Pittsburgh 30, Pa.

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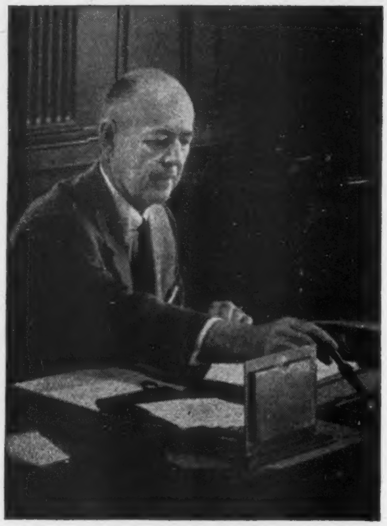
Atlanta, Chicago, Cleveland, Dallas, Dayton, Detroit, Houston, Los Angeles, New York, Philadelphia, Pittsburgh, Tulsa, Warren, Ohio



Chmn. Follis says efficient oil operators will make reasonable profits.

when he talks about balance. It's what California Standard had less and less of as the black stream from the sands of Arabia and other foreign soils increased to a torrent.

II. The balancing game

To balance that crude supply, Socal bought and expanded a refinery in Perth Amboy, N. J., and set up a subsidiary to market its products in the East. To process the very heavy crude it was now producing in Venezuela, it built asphalt refineries in Cincinnati, Baltimore, Mobile, Perth Amboy, Bajo Grande, Venezuela, and elsewhere.

As fast as new refining capacity could be added, Socal's geological parties upset the balance anew as they poked around in Sumatra, Iran, Libya, and elsewhere for new sources of foreign and domestic supply. The company's aim was to achieve geographic diversification and insurance against local political instability—like the Suez crisis in 1957.

In the last 10 years alone, Follis has diverted $3.1-billion into capital and exploratory expenditures. At last count, the company was operating 10,379 oil and gas wells in the Western Hemisphere, exclusive of its participating interests in the Middle East.

This producing complex is backed up by a system of 13 refineries. A chain of 1,300 wholesale marketing units distributes all or some of the products in most of the 50 states, Canada, and Central America through some 18,000 retail outlets. In its major marketing areas, a Socal subsidiary owns and operates 900 retail filling stations, primarily on arterial highways. The company also owns 29 seagoing tankers and charters another 19 with aggregate capacity of 10-million bbl., and, in the U. S. alone, 4,300 mi. of pipeline.

Pattern emerges. Only recently has the pattern of Follis' expansion ambitions become clear. It was fogged by the 1957 blockage of the Suez Canal that overaccelerated production of Western Hemisphere crude to supply oil-starved Europe. When the supply crisis abated, Western wells continued to gush, and, with the backed-up supplies of the Middle East, created the glut that still persists and has depressed oil profits.

Rapid wartime and postwar growth in the Far West converted California from a net exporter to a net importer of oil. No longer could the California-based company supply its outlets in the Western states, plus Hawaii and Alaska, without regional refineries and local production. To satisfy the Rocky Mountain market, a crude oil pipeline was laid from the Rangely field in Colorado to a new refinery in Salt Lake City, and a product line was built from Salt Lake City to Spokane, Wash., to serve the Pacific Northwest.

A refinery was built in El Paso to convert the crudes of West Texas and New Mexico into gasolines, lubricants, and fuel oils for that market. The expanded refinery in New Jersey absorbed some of the Middle East crude to serve retail outlets in New England and Middle Atlantic states. To handle more of the Arabian oil, Socal embarked on a joint venture with Irving Oil Co., St. John, N. B., and built a refinery to serve Canada's Maritime provinces.

In Hawaii, Socal erected the 50th state's first refinery, fed by crudes of Arabia and Sumatra. In Alaska a joint venture with Richfield turned up that state's first commercial oil production, and Socal is now building a refinery in Alaska to process it.

Still, the company was left with a heavy outpouring of crude from the Gulf states. Even if it had had refining capacity in that area to process it, Socal lacked a market for the products. The crude was sold to the company's competitor.

Important acquisition. That's where the acquisition of Standard Oil Co. (Kentucky) comes in. Kyso is strictly a marketing company serving some 8,500 retail outlets in five Southeastern states. To the frank displeasure of independent refiners in the Deep South, Kyso has been buying 83% of its gasoline and other refined products from Humble Oil & Refining Co., subsidiary of Jersey Standard. Three years ago the Jus-

tice Dept. drew a bead on the Humble-Kyso supply contract.

At this juncture, Socal needed markets for its Gulf states oil; Kyso, about to be litigated out of its major supply source, needed oil for its markets. Under the benign gaze of the Justice Dept., a marriage was solemnized, its vows engraved in a consent decree.

Kyso, now a subsidiary of Socal, has up to five years under the decree to phase out its Humble supply contract. In the meantime, Socal will get busy in the next few weeks on a $125-million refinery at Pascagoula, Miss., to process Gulf states crude.

"The consolidation of Kyso into our system closed the gap," says Follis.

III. Growth plus profits

Where he and Miller will precipitate new distortions is their secret. The company is now in a position to refine and market the products of better than 90% of its available crude. It's a foregone conclusion that the exploration and production departments will come up with more crude to upset the balance.

No illusions. Follis has no illusions about the vigor of the competition that confronts him. But it's indicative of his intentions that his new president, Otto Miller, has spent the last few years engrossed in studies of corporate growth and profits.

If you can trust the signs, Socal has not stopped expanding physically. Profits may be something else. Like other majors, Socal was enjoying the fruits of a seller's market until Gamal Abdel Nasser threw a block on the Suez. Since then the world surplus of crude has rekindled the fires of competition for markets and rendered the fat out of oil profits.

Profit picture. Socal's earnings ($266-million in 1960 on revenues of $2-billion) are at a level Follis hoped to reach three or four years ago but didn't. What's more, Follis doesn't see any return to the high road of bonanza profits for the industry except in an international upheaval.

"The efficient operator," says Follis, "is going to make reasonable profits, and the inefficient operator is going to have a bad time. We're still in a strongly growing industry where our volume can be expected to increase. The unknown quantity is not whether the industry possesses a strong growth potential. It's whether we're right in thinking that the competition is already exacting its toll of inefficient operators."

You get the notion that Follis has no intention of letting Standard of California pay any of that toll. **End**

International outlook BW

November 4, 1961

Washington acts to improve payments balance

Washington is making a strenuous effort to reduce the deficit in our balance of payments. Most of the drain has come from increasing military expenditures overseas, particularly in Europe, to meet the Soviet threat to Berlin.

The latest and biggest single move is a new agreement with the West Germans. Under its terms, Bonn will double its purchases of U.S. military equipment for the Bundeswehr.

U.S. officials stress that this is primarily aimed at increasing the effectiveness of West German forces. **But as a welcome byproduct it will substantially help our balance of payments.**

Help from West Germany

The new agreement calls for West German forces to buy between $750-million and $800-million worth of U.S. supplies a year. Included are payments for joint use of U.S. military facilities. This compares with $350-million of West German military purchases from the U.S. last year.

Thus, the net gain to the U.S. balance of payments will be about $400-million a year, once the program is fully implemented. This will just about offset U.S. military expenditures in West Germany. These have been running around $600-million a year.

With increases announced so far, our military outlays in Germany will go up to $725-million in fiscal 1962 and about $780-million the following year.

Will other Allies help?

The over-all impact of this and other minor steps on the balance of payments should reduce to $2.8-billion the deficit caused by military expenditures abroad. This is $500-million less than it might have been otherwise.

Overseas military spending has been running around $3-billion a year. The recent military buildup has added about $300-million, bringing the total to $3.3-billion. The West German agreement will cut that figure by $400-million; other savings, by an additional $100-million.

Washington hopes that the West German agreement will set a precedent for fairer sharing of the cost of the military load among the Allies. An early attempt probably will be made to work out similar arrangements with the French, British, and other members of NATO.

Khrushchev's policies zig and zag

The twists and turns of Premier Khrushchev's policies toward the West and within the Communist bloc have been bewildering this week.

In foreign policy, Khrushchev is playing tough in Berlin, exploding huge nuclear weapons in contemptuous defiance of world opinion. At the same time, he is calling for negotiations with the West.

Inside the Communist bloc, Khrushchev is challenging the Chinese Communists to accept his policies or openly break with him. He has revived his "de-Stalinization" campaign and dramatized it by transferring Stalin's corpse from the Lenin mausoleum.

Washington's interpretation

The Soviet leader's moves outside the bloc are seen in Washington as tactical maneuvers in the Berlin crisis. They fit within a basic strategy of avoiding serious risk of war with the West, accompanied by threats designed to get the most out of negotiations.

The demand that Finland discuss with the Soviet Union common defense

International outlook Continued

measures against West Germany is aimed not at the Finns but the other Scandinavians, as U. S. officials see it. They say Khrushchev hopes these countries will increase pressure on the four big Allies to make concessions in Berlin.

Inside the bloc, Khrushchev's political game is as complex as his position is sensitive. He evidently feels strong enough to attack his opponents at home and in Peking. Yet his attacks indicate that he sees the "Stalinists" and the Chinese as potential threats.

Just how Khrushchev's foreign and domestic moves are related isn't clear in Washington.

It's not known why he chose to take on the Chinese and the "Stalinists" at the same time he was taking on the West in Berlin. One theory is that he heated up the Berlin question to settle it before challenging his internal enemies, but that his timing went wrong.

United Nations runs into money troubles

Besides its political problems, the U. N. is suffering from financial difficulties.

U. N. officials estimate that the organization's yearend deficit will run to about $35-million. But you can't blame all of this on the Communists' refusal to contribute. A number of Western nations have also refused to pay their assessments.

The Congo operation is the largest single source of potential deficit. Assessed payments are $38.3-million in arrears. Only eight nations, including the U. S., have paid their assessments so far. The Communist countries, France, Belgium, Nationalist China, and South Africa are among those in arrears.

Inflation, political unrest in Brazil

Severe inflation again threatens Brazil. It has built up quickly in the two months following the political crisis caused by the resignation of Pres. Janio Quadros [BW Sep.2'61,p22].

Leading causes of the inflationary spurt are:

- **Excess currency.** Of the 70-billion cruzeiros issued to meet cash demands during the August-September crisis, 20-million remain in circulation.
- **Wage and price increases.** The government has lifted the minimum wage by 40%. Raises for those receiving above the minimum are being negotiated in terms of 40% to 60%. Prices are up in anticipation.
- **Doubts about the stability of the government.** There are widespread fears that the parliamentary regime hastily voted by Congress to head off a civil war is not here to stay. Pres. Goulart has declined to play the figurehead role assigned him, while the prime minister and cabinet, which includes contradictory elements, are often working at cross-purposes.

One sign of this lack of confidence is the swift weakening of the cruzeiro, caused chiefly by a flight of capital. To halt what it calls "speculation," the government has imposed stringent restrictions on foreign exchange, which may lead to a gray market in currency.

It is problematical whether Brazil can get through its present economic difficulties without further modifying its hybrid political structure. **And extremists of both the left and right are waiting in the wings for the moment to take the center of the stage.**

Thousands of people <u>made</u> this connection. The switchboard operator was the next-to-last.

The *last* was the businessman who lifted his Bell telephone handset and completed the connection.

The thousands before were Bell Telephone System people who developed, manufactured and installed the switchboard and hundreds of other products for the nation-wide communications system to which the business communications center shown here has access.

This switchboard and hundreds of associated items of equipment made by Western Electric:

. . . must be designed to work with all the others.

. . . must be manufactured to the same consistently high-quality standards to provide uniformly high-quality service.

. . . must be operable in the same way and to the same service standards, wherever located.

Only by carrying forward all three tasks together can ever-widening versatility and flexibility of service be created and maintained.

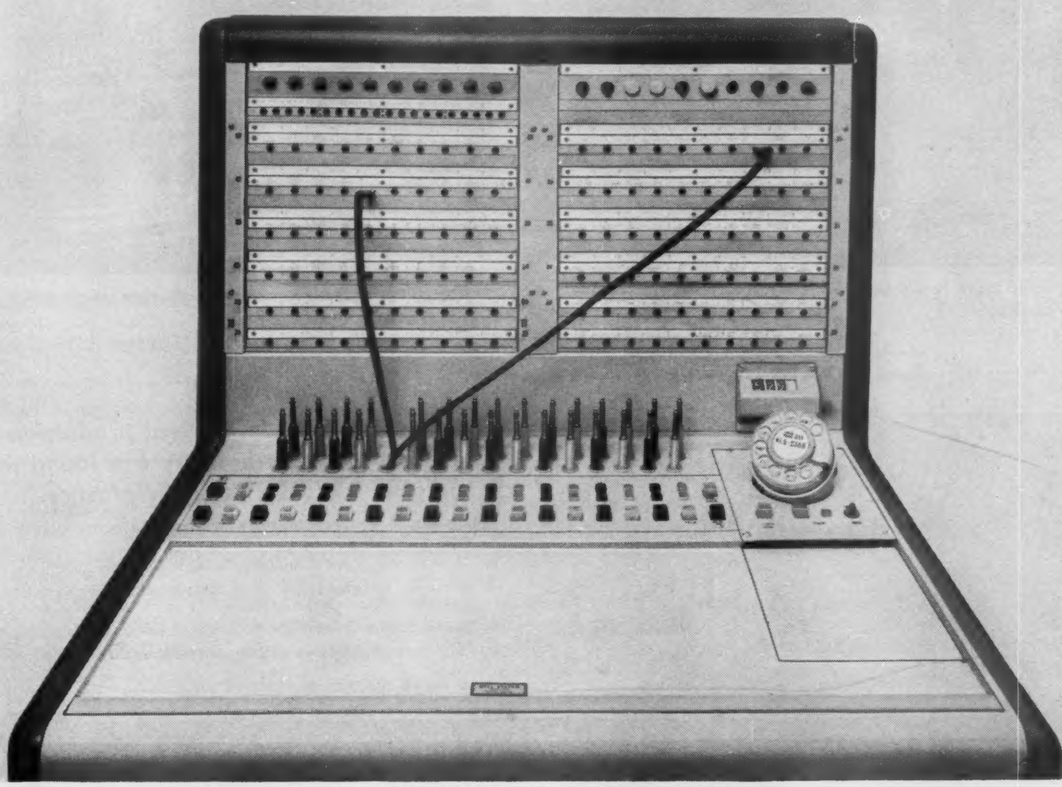
And that is the common goal of Bell System people:

. . . of Bell Telephone Laboratories scientists who develop new Bell System products.

. . . of Western Electric engineers who work closely with Bell Labs to make new designs manufacturable to Bell System standards and at reasonable cost.

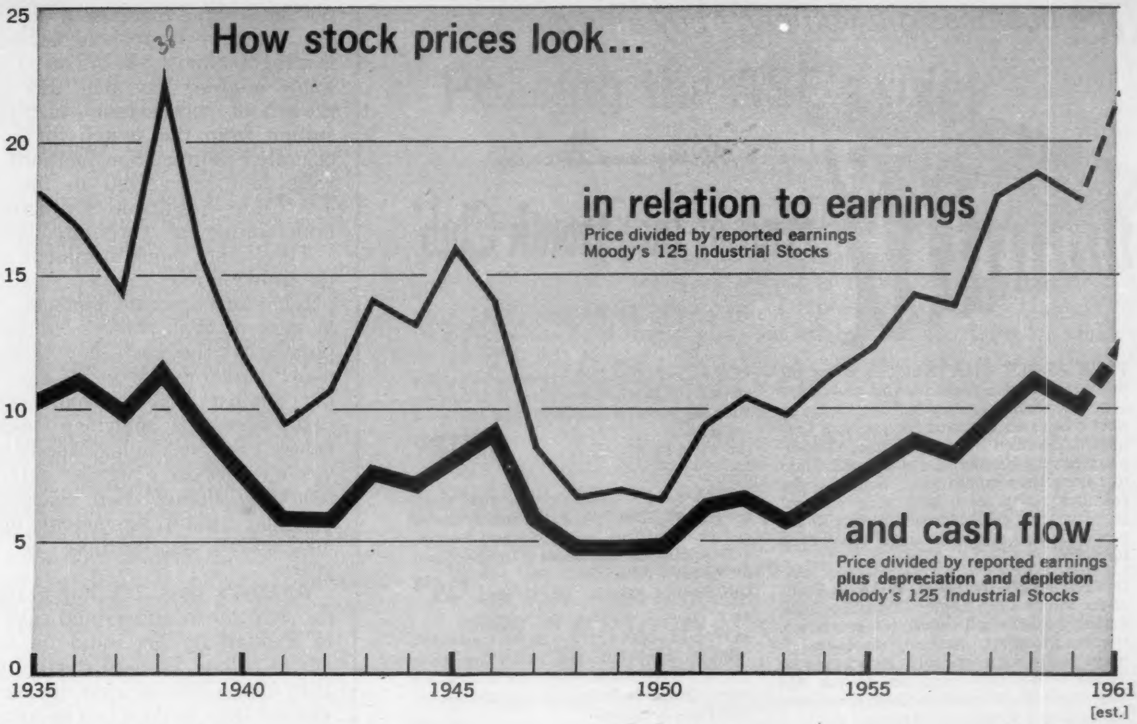
. . . of the personnel of Bell Telephone companies who operate the equipment to provide the range and reliability of service on which America's businessmen depend.

Together, we make your connections. We work best because we work together.



Western Electric

MANUFACTURING AND SUPPLY UNIT OF THE BELL SYSTEM



Data: Moody's Investors Service

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THE MARKETS

Cash flow is the new fad

It's the latest investment yardstick in Wall Street—but except when handled properly it's not much more than a sales gimmick. The interpretation is important

In Wall Street—where styles in investing change as often as they do for women's clothes on the Rue de la Paix—a new fad is appearing: "cash flow analysis." Increasingly, the market letters that pour from the major brokerages are talking about cash flow—defined by most analysts as a company's reported earnings plus such "non-cash" charges as depreciation and depletion—as the key to hidden value in stocks.

To take just one example, Schweickart & Co. recently published an analysis on Decca Records, Inc., which because it controls Universal Pictures is generally considered a motion picture company. Stanley A. Nabi, who heads Schweickart's research, recommended Decca because "reported earnings in the motion picture producing business are of secondary importance. Cash flow, and depreciated films, are more important yardsticks since they actually represent hidden wealth with delayed income."

Some Wall Street firms—and corporate public relations men, who are beginning to highlight cash flow figures in company annual reports—are playing fast and loose with the cash flow concept. More and more market pundits are talking as though cash flow were synonymous with earnings, when, of course, it is not. As one market man comments, "It's not the amount of cash flow that counts, it's the quality."

Available money. Actually, cash flow is a measure of the money available to corporate management—after out-of-pocket expenses—to keep a business running and pay a return to its owners. Whether the depreciation that a company is charging off against its income is excessive—which would give it a flavor of "hidden earnings"—or fails to cover capital exhaustion, will depend entirely on the company and industry in which it operates.

It's possible to trace the surge of interest in cash flow. The demand for growth stocks has declined rapidly as many companies that had been recommended because of their rapid rate of growth in earnings fell far short of projections. This has forced analysts to cast around for new concepts to use in selling stocks, and cash flow is providing a convenient and effective device.

Among other things, as you can see from the chart, stock prices look a lot more reasonable these days in relation to cash flow than in relation to earnings, though in both cases the market is historically high.

Depreciation. Then, too, there's the fact that corporations are re-

porting a rapid increase in depreciation charges—from about $25-billion in 1954 to almost $40-billion in 1960. Some analysts say that this rapid growth of depreciation—largely resulting from the switch to the accelerated depreciation methods tha were first recognized in the 195 Tax Code—results in a progressive understating of corporate income.

There's not much argument about the growing role that depreciation is playing in corporate financing. But in view of Wall Street's attempt to popularize the cash flow concept many market professionals are warning against indiscriminate use of cash flow in analyzing security values. For example, Moody's Investors Service points out that mounting depreciation charges today may simply be making up for inadequate depreciation in past years.

Analyst's goal. It's important for the investor to understand cash flow in making up his mind on which stocks to buy. A good starting point is to take a look at what the security analyst tries to do when he analyzes a common stock. In simplest terms, his aim is to decide whether the stock is selling too high or too low in relation to the securities of comparable companies.

Obviously, the outlook both for the general economy and the specific industry has a role to play. But from the analyst's point of view it's equally important to get at the company's basic earning power—to eliminate distortions in reported earnings caused by nonrecurring items, changes in accounting methods, and so forth. Similarly, since not all companies report their results on the same basis, they have to eliminate accounting differences between companies in order to get meaningful inter-company comparisons.

Oil practice. This is how the use of cash flow in security analysis got its start. In the oil industry, practices vary widely from company to company in accounting for exploration and development costs of oil finds. Most oil companies capitalize these costs, and then amortize the investment over the expected life of the well. However, a few companies—including Continental Oil Co. and to an extent Sun Oil Co. and Amerada Petroleum Corp.—charge exploration and development against current income.

This can make a substantial difference in the amount of reported net income. For example, in 1960 Amerada changed its accounting practice to charge to capital account the intangible drilling and development costs of productive wells in Libya.

Previously, Amerada had charged all its development costs against current income. The effect of this change was to boost Amerada's net income per share in 1960 from $3.84 to $4.37.

Variations. Obviously, in comparing oil company earnings, allowance has to be made for such variations in accounting. An easy way to do this is simply to calculate cash flow for the companies being compared. In effect, this puts them all on the same footing.

This is what the managing partner of one small Wall Street firm calls a "legitimate" use of cash flow analysis—as one tool among many in the security analyst's kit. Indeed, most oil companies use cash flow analysis internally in making decisions on capital expenditures.

Across the board. The application of cash flow analysis in the oil industry is clear cut, but its application across the board to all classes of securities is more questionable. In some industries it amounts to little more than a selling gimmick.

In the chemical industry, where plant and equipment generally become obsolete fairly quickly, a company is always spending for new facilities. So the chances are that heavy cash flow in a chemical company isn't going to make much difference from the investor's viewpoint. On the other hand, in an industry where the rate of technological change is relatively slow—rayon, for example—a large amount of cash flow means that corporate management has the opportunity to invest surplus cash generation in improving the company's business. This is what happened at American Viscose Corp., which has parlayed a big cash flow into a $200-million, 13% stake in Monsanto Chemical Co., plus other profitable ventures in chemicals and paper.

Case of realty. In real estate—where assets tend to increase rather than decline in value—cash flow is generally equated directly with profit. In fact, most real estate companies pay at least part of their dividends from depreciation charges.

But the real estate outfits—which, in effect, traffic in depreciation by rolling over their investments whenever depreciation charges start to drop off—are a special case. There are few industrial companies where cash flow and profit are identical.

As one veteran Wall Street observer commented, "The fact that you have cash flow is no more important than the fact that you have research expenditures—neither means a thing until you accomplish something."

THE MARKETS PATTERN

BW

Policing the ASE's rules

At the moment, the American Stock Exchange is probably the most investigated market on earth. The Securities & Exchange Commission is conducting its full scale inquiry into the ASE's operations. And a private committee, made up of representatives from many of Wall Street's big brokerages and headed by Gustave Levy of Goldman, Sachs & Co., is also undertaking a comprehensive review. Given this sort of attention, the prospect is that the ASE will be asked to adopt a new set of rules and regulations to protect the investor.

But investors have a right to ask whether the ASE's present rules and regulations are inadequate. The fact is that the ASE has fairly tough rules, many of them originally suggested by the SEC. In the now celebrated case of Gerard and Jerry Re, the father-and-son team of specialists who were found guilty of manipulating a number of stocks, the issue was clearcut. The Res flouted the ASE's rules and the law itself—until they were finally apprehended.

Matter of enforcement. While the rules of the New York Stock Exchange are generally more stringent than those applying on the ASE, the real difference seems to be in their enforcement. The NYSE has been tough on its members who attempt to evade either the letter or the spirit of its laws. The ASE, on the other hand, has been considerably more relaxed. It is an open secret that its members have got away with things that would not have been countenanced on the floor of the senior exchange.

Because both investigations are taking place in private, there is no information on just how widespread the infractions have been. In the circumstances, it is understandable that rumors of serious and extensive violations make the rounds, along with the inevitable wisecracks, such as describing the ASE as the "Big A," the name by which New York's Aqueduct Racetrack advertises itself. This, of course, damages the reputation of the ASE, but it also damages Wall Street. For most of the major Wall Street firms are members of both the NYSE and ASE.

Shared blame. Thus, the professional management of the ASE should not have to take all the blame for the charges. The membership must share responsibility. It is a sad commentary that some of the member firms that exercise extreme care in their behavior on the NYSE are much less cautious in their dealings on the ASE.

Many firms admit to this double standard. Their defense has been that they merely try to conform to the rules of the game as it is practiced in different settings.

The Street acts. The big retail brokerage firms, which handle a major portion of the ASE's growing volume, did not push for a private investigation until well after the SEC began its probe. Then, belatedly, they became aware that the one thing that could hurt Wall Street, and damage the confidence of the public, was any sign that the financial community appears to condone or cover up evidence of wrongdoing.

Thus, Wall Street is now accepting responsibility. The establishment of the Levy Committee suggests that the double standard will no longer prevail. It would have been better if Wall Street had taken action before Washington moved; but in finally setting up an investigation it is acting in its own best interests.

This is much more important than any changes in the rules themselves. If Wall Street recognizes that it has a big stake in effectively policing the ASE, as it does on the NYSE, then it will demand that the regulations be observed. If the ASE's staff has the backing of the membership in policing the floor and in cracking down hard when it uncovers violations, the public interest will be protected.

Wall St. talks . . .

about companies' financing strategy, mutual fund activity, MIT purchase of AT&T

Underwriters say that companies are holding off going to market until the business outlook clears. They **think there's a real risk that companies will wait too long.** If they come in with a rush, they may have to pay high interest costs in the capital market or face tough competition should they try equity financing.

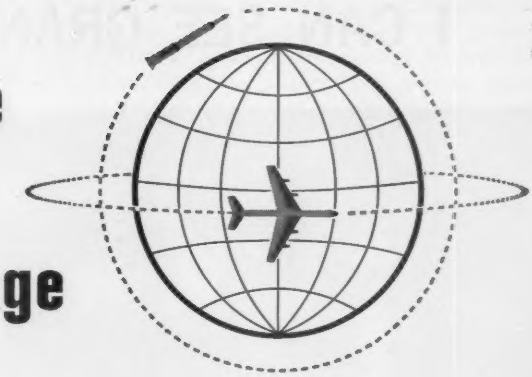
Mutual fund activity in the third quarter has excited talk about changes in investment fashion. The funds were big buyers of bank shares (page 141), but for the first time in two years they were net sellers of retail trade stocks. Profit-taking also was heavy in cosmetics, tobacco, and insurance stocks—all favorite holdings until recently.

The big surprise in institutional portfolios was **Massachusetts Investors Trust's purchase** of 101,000 shares of American Telephone & Telegraph. MIT hasn't held any AT&T stock since 1952, partly because it has felt AT&T's rate of return hasn't been growing significantly. Now an MIT spokesman says technological changes in the industry and an improving regulatory climate make purchase desirable.

Hurricane Hattie, which battered the banana producing areas of Central America, has touched off **trading in the stocks of United Fruit Co. and Standard Fruit & Steamship Co.** Brokers say Hattie might turn out to be a favorable development—despite the fact that United alone lost 500,000 stems of bananas—because banana prices (which have been depressed due to overproduction) could increase sharply if a shortage develops.

Three New York banks operating in Long Island are supporting the Justice Dept.'s antitrust suit against Manufacturers Hanover Trust Co. Meadow Brook National Bank, Eastern National Bank of Long Island, and the Bank of Westbury Trust Co. all filed affidavits at the New York court where the case is under consideration, claiming the merger will make it difficult for them to survive.

Celanese synthetic lubricants for the space age



For many years, Celanese has been supplying industry with fire-resistant hydraulic fluids and compressor lubricants.

Trademarked "Cellulube," these synthetic materials contribute to the safe operation of die casting machines and other plant equipment subject to high temperature environments. They are also used by the U.S. Navy to activate aircraft carrier mechanisms and missile launching equipment in Polaris type nuclear submarines.

Utilizing the same background technology, Celanese introduced a group of heat-resistant lubricants to meet the severe conditions encountered in jet engine operation—where ambient engine temperatures are far greater than those found in piston type aircraft. The development of "Cellutherms," as they are called, was a major breakthrough in the chemistry of synthetic lubricants for super-sonic military and commercial aircraft. Joining in this project was the Air Force Research and Development Command.

To date, at least nine Governments of the free world are now either adopting or testing Cellutherms for their military and commercial jet aircraft. And, to keep pace with future needs for new and improved space age lubricants, Celanese is continuing with basic exploratory work, both self-supporting and under Government contract.

The opportunities for expansion in this one area of chemistry are exciting. In the automotive field, for example, Celanese now manufactures and supplies oil additives, fuel additives and related products. Most recent is a synthetic transmission fluid-lubricant for use in the *transaxle*—a combination transmission and differential unit. Located in the rear of the car, it eliminates the hump in the front seat floor. Currently, two 1962 models coming out of Detroit are equipped with this space-saving improvement.

Latest development is a group of synthetic grinding and cutting oils for machining the ultra-hard nickel-chrome alloys used by the aircraft, space and missile industries.

Cellulubes, Cellutherms and other fluids in this group are manufactured by Celanese with significant economies resulting from its basic position in raw material sources. Distribution in the United States is handled through the Celanese Chemical Company and in foreign countries through its export affiliates, Amcel Co., Inc. and Pan Amcel Co., Inc. The rights to manufacture Cellulubes in Great Britain are licensed to A. Boake-Roberts.

The bright future of these synthetic functional fluids is another example of the vast possibilities inherent in organic and polymer chemistry. Celanese Corporation of America, 522 Fifth Avenue, New York City. Cellulube® Cellutherm® Celanese®

Celanese

CHEMISTRY FOR THE MARKETS OF THE WORLD

In the markets

BW

Stock prices remain sluggish as earnings reports disappoint investors

Investors are still awaiting the boom. They found little to cheer about in third-quarter earnings reports; this is obvious from the sluggish behavior of stock prices, which have been trading in a narrow range over the past month. Apparently stock buyers feel disappointed that earnings didn't maintain the momentum of the big jump in corporate profits in the second quarter.

Institutional investors, some of whom took a more defensive posture in the third quarter, are not buying heavily. In fact, they are taking profits in some consumer goods stocks, but are still not aggressively bidding for cyclical stocks—which would benefit from an upturn in business. Tax-loss selling, meanwhile, continues to hit the more depressed issues in the applied science field. **The consensus of analysts is still that stock prices will go higher before the year is out, but more and more caution is the key word.**

Keystone joins the rank of funds offering contractual investment plans

Another big investment company has joined the ranks of those offering contractual plans. Boston's Keystone Custodian Funds, Inc., this week announced that it's starting a program based on the accumulation of shares of its K-2 growth fund. K-2 currently has total assets of close to $100-million.

Contractual plans, on which a large part of the sales commission is taken out the first year, **call for a shareholder to put in set sums over a specified time period.** Chiefly because of the incentive to salesmen, these plans account for an ever-increasing share of the industry's sales. But there still are a surprisingly large number of funds that haven't put similar plans in action.

Investment houses score British Columbia on methods used in utility takeover

Some of the world's largest investment houses have bluntly warned the British Columbia government that they have serious reservations about making further investments in Canada because of the methods used last August in taking over British Columbia Electric Co. [**BW** Aug.19'61,p124].

British Columbia had offered stockholders of B.C. Electric a flat $38 a share; and those who held the company's senior securities were offered obligations of the government on a dollar-for-dollar basis. **This exchange has irked the big investment firms that hold B.C. Electric securities, and they are protesting that the government denied them any right to appeal its decision on the financial settlement.**

"The fixing of value by legislative fiat without hearing or opportunity for judicial review appears to us as an act of confiscation," wrote Peter B. Langmuir, vice-president of the Northwestern Mutual Life Insurance Co. And **George F. Bennett, president of Boston's State Street Investment Corp., wrote: "You may be assured that no further purchases of provincial or corporate securities will be made unless and until there is a demonstrated change in the attitude toward private capital."**

The government took over B.C. Electric as part of its program to develop power on the Peace River in Northern British Columbia. The move may serve to postpone efforts of the U.S. and Canada to develop the Columbia River. British Columbia can ill-afford to irritate the financial community—it will have to raise more than $600-million for the Peace River project.

Demand for bank stocks spreads from institutions to individual investors

The normally staid and slow-moving bank stock market went on a tear this week. The American Banker's index of New York City bank stocks jumped over 141—compared to a 1961 low of 98—and currently is at its highest level since 1929.

Traders in the market say that the demand for bank shares—in the past mostly confined to insurance companies and mutual savings banks—has broadened considerably in recent years. **For the first time, mutual funds are big buyers of bank stocks.** For example, United Accumulative Fund took an initial position of 40,000 shares in Wells Fargo Bank American Trust.

This institutional demand has attracted individual investors. In fact, the climb in bank stocks—which has come in the face of a drop in bank earnings this year—has been so fast that many traders are worried about the possibility of a serious shakeout. Morgan Guaranty, for instance, was trading over $147 a share at midweek (1961 low: $101.50), up more than 10 points in a week. As one trader put it: "If the Justice Dept. moves against Morgan's holding company application, it could easily knock the stock down 25 points."

On the West Coast, bankers are taking a close look at an offbeat investment company that Union Bank of Los Angeles is setting up. Dubbed Hill Street Co., **it is being set up to finance small, speculative businesses—but it won't operate as a small business investment company.** ("There are too many limitations on SBICs," says a spokesman for Union Bank.) Union Bank is taking the unusual step of offering its shareholders preemptive rights to buy Hill Street stock at $3 per share, which—with capital already contributed—should bring Hill Street's total assets to about $7-million.

Another unusual feature of the deal comes in the management contract that Hill Street has with Union Bank. Union Bank will provide investment services; in return it will get a regular fee of ¼% of Hill Street's net assets quarterly, plus 25% of its profits before taxes.

The fight against 'Boulwarism'

AFL-CIO department seeks to line up unions in Yale & Towne strike, where it sees a new cropping up of the tough negotiating line pioneered by GE. Company says it isn't so

AFL-CIO's Industrial Union Dept. moved late last week to form a solid front of union opposition in what IUD fears is a new testing ground of "Boulwarism"—the tough negotiating policy used so successfully by General Electric.

Labor has been wary for years of the spread of the GE tactic to other employers. AFL-CIO's executive council renewed warnings against "Boulwarism" at its recent meeting.

Now, according to IUD, "Boulwarism" is an issue in a nine-week strike of plant employees at Yale & Towne Mfg. Co.'s Philadelphia Div., the company's largest plant. New, tough bargaining tactics are being used there under the direction of Paul R. Hartig, formerly with GE and since 1959 a Yale & Towne vice-president. IUD, headed by Walter Reuther, United Auto Workers president, threatens an all-out fight.

Coordinated attack. For its part, Yale & Towne says there is no "Boulwarism" in its bargaining, that it is negotiating in Philadelphia and Chicago—and will negotiate elsewhere—"realistically" in view of pressing company problems. That statement hasn't stopped IUD.

Six unions negotiate with Yale & Towne. Two are involved in the Philadelphia strike that began Aug. 31—the International Assn. of Machinists, which bargains there for 1,200 production workers, and the Office Employees' International Union, which represents 38 office workers who struck.

The United Auto Workers has a contract covering 650 to 700 workers in Yale & Towne's second largest plant in Chicago. Other unions include the United Steelworkers, the International Brotherhood of Boilermakers, and the United Textile Workers.

IUD has called on all of them to coordinate their bargaining with Yale & Towne, and to support the Philadelphia walkout through strikes —if necessary—as contracts expire.

Noneconomic issues. The Philadelphia dispute—as many today—involves working conditions rather than money. The company offered plant workers a three-year contract with 21½¢ an hour in raises through 1963. An IAM official said members were satisfied with this.

But Yale & Towne wants changes in 35 of its old contract's 37 clauses covering working conditions, to improve plant productivity and increase operating efficiency generally. It contends it must have the changes to improve its competitive position.

James Adams, Jr., recording secretary of the striking Machinists local, complains that the changes would put the union back 15 to 18 years.

What concerns the union most is a Yale & Towne proposal to give it departmental seniority instead of plant seniority. Under the expired contract, a man with substantial seniority had to be transferred to a job in another department if his department was shut down. The company is demanding the right to lay off a department if it runs out of work.

Company officials are not talking for the record about the strike. But in mid-September Hartig sent all company employees a lengthy letter that said the expired contract "encouraged certain practices that led to the unprofitable position we are now in." It cited, as an example, approximately 1,500 grievances that were filed by employees during the two-year duration of the old contract.

"There is evidence that many of these were not the result of serious employee dissatisfaction but rather, to put it bluntly, that some union officials had bulldozed employees into making phony grievances," the letter charged.

The union does not deny that a large number of complaints were filed during the past two years.

"The point is that the company did nothing about any of these complaints," says Adams. "They simply let them go to arbitration."

Hartig's letter also said the union has no reason to be perturbed about the proposed departmental seniority. It points out that a two-year contract signed with the union in 1957 contained such a clause.

"Yes, but that clause did not work out the way the company promised us it would," says Adams. "When there were layoffs, the company laid off anyone it wanted to."

Early in the strike Yale & Towne obtained an injunction forbidding Machinists pickets to block driveways to the plant. But it did not seek a similar injunction against members of the OEIU. Last week the AFL-CIO in Philadelphia called on other unions to join the office workers in picketing. For two days thereafter, mass picketing blocked the plant's driveways and slowed down the more than 600 office employees who have remained on the job.

Pickets for the Machinists abided by the injunction and kept five feet from the entrances to the plant.

Appeal to UAW. Last week four members of the striking IAM local in Philadelphia went to Chicago to report to UAW Local 53 there on lack of progress in their negotiations. The UAW pact with Yale & Towne expires Nov. 9.

The IAM strikers asked the UAW local not to sign a new contract while the Philadelphia walkout continues. The Chicago local agreed unanimously on this, but with fewer than half its members attending and voting. However, the local vote to authorize a strike failed to poll a necessary two-thirds majority.

Yale & Towne has offered the Chicago local a three-year contract with annual raises of 2½% or a minimum 6¢ an hour, along with pension, insurance, vacation, and other concessions. The local says that it must have, in addition, a cost-of-living clause, supplementary unemployment benefits, and regular steps of progression from lowest to highest rates paid—a 33¢ spread.

Negotiations are continuing in Chicago. Despite the vote to support the Philadelphia strike, straws in the wind indicate that if the UAW workers get much closer to their "package" demand, it will be difficult for leaders to hold them to the pledge to IAM. **End**

New drive against union shop

Right-to-Work Committee maps strategy to fight compulsory unionism

Thomas E. Harris (standing), associate general counsel of AFL-CIO, argues for the union shop at National Right-to-Work Committee conference in Chicago.

Right-to-work laws—which ban the union shop—will be a serious issue again in state legislatures in 1962. The U. S. Chamber of Commerce and other foes of compulsory unionism plan new drives against the union shop "wherever and in whatever form it may exist." Labor is getting set for repeal moves in several of the 19 states with laws.

The preliminary propaganda skirmishing is under way. Last week, the opposed sides clashed—verbally—in an unusual confrontation in Chicago.

Thomas E. Harris (picture), associate general counsel of AFL-CIO, appeared on the platform before a National Right-to-Work Committee meeting to "butt heads with some very hard-headed gentlemen" in a debate on the pros and cons of right-to-work laws. At the end of a lively session of give-and-take, some heads were sore—but apparently no minds were changed.

The debate. The National Right-to-Work Committee plans to press "strong right-to-work movements . . . next year in major industrial states," the committee's executive vice-president, Reed Larson of Washington, told a conference of 140 partisans from 40 states.

He said that the groundwork already has been laid in Illinois, Ohio, Wisconsin, Pennsylvania, and Michigan. Additionally, "advanced" campaigns are under way in Kentucky, Louisiana (which had, and then repealed, a right-to-work law), New Jersey, Rhode Island, Massachusetts, New York, and Alaska. The committee hopes to win new union shop bans in at least three states, Larson said. And it expects that it will have substantial support from workers, though Harris calls this wishful thinking.

Do the laws hurt? One delegate asked: "Do right-to-work laws hurt the economy of a state?"

"Wage levels aren't necessarily low because of the passage of right-to-work laws; they were low when the states passed the laws," Harris replied. He added that since high-wage industries are usually union industries, many Southerners are beginning to recognize that unions would improve the economy of their states.

Larson objected to this. It's just not so, he said. He cited government figures to indicate job opportunities are increasing four times as fast in right-to-work states as in others.

Arkansas-born Harris replied: "Right-to-work laws are passed to encourage and preserve a low-wage economy. The type of industry Arkansas and other right-to-work states in the South are attracting isn't worth attracting."

His "backward, rural state" has lost 200,000 population in recent years, Harris said, while in California—where the union shop and closed shop are legal—industry, the economy, and the population are expanding at a very rapid rate.

A delegate from Arkansas demanded the floor to say that Arkansas' loss of population resulted from changes from a man-and-a-mule economy to a mechanical economy. There is one worker in the cotton industry now for the 10 to 15 there used to be, he said, adding that anybody can see plants moving into Arkansas, "big and important" plants.

"But you don't see those 200,000 people moving back," snapped Harris.

AFL-CIO'S position. The AFL-CIO counsel said that AFL-CIO does not want a law requiring everyone to join a union. What labor wants, he said, is a law giving workers an option of joining the union of a majority of workers in the plant or taking a job elsewhere.

The statement brought a number of delegates to their feet to protest. Larson said that the National Right-to-Work Committee takes sharpest exception to such a viewpoint.

Committee's position. "We believe that no person should be compelled to belong or not belong to a union in order to work at his job," Larson said. "We believe in and will defend the right of workers to join unions, to organize and bargain collectively, if they choose to. We also believe in the right of workers to stay out of unions if they want to, without being deprived of employment."

He added that "the freedom to go out, jobless, to hunt employment elsewhere, isn't any freedom at all."

Commenting on the recent "agency shop" decision by the National Labor Relations Board [BW Oct.7 '61,p91], Larson said angrily:

"Union officials—having stripped those in the majority of their right to bargain for themselves—now have the gall to demand taxation of non-members as 'free riders' under union contracts. Union officials demand that these non-members pay for representation they do not want."

Labor rebuttal. At times, tempers flared. Harris charged that the committee is "an organization . . . dedicated to the emasculation, if not the obliteration, of the labor movement."

And he said "the real foe, or tar-

get," of the right-to-work people is collective bargaining—the advocates of right-to-work laws are "trying to undercut the foundation structure of our whole labor movement."

When a majority chooses a union, the union must deal with the employer for all of the workers—on wages, seniority, arbitration of grievances, pensions, everything, he said. Under the circumstances, Harris added, it's absurd to say there should be no dues-paying or fee-paying by those who benefit but are not members of the union.

Larson replied that the unions that now complain of the unjust burden of having to represent non-members asked for and were granted by Congress "that very special power to bargain for non-members." They did so, he said, to stifle individual bargaining, legal before the Warner Act.

No, not to stifle it, Harris retorted, but because if employers could make deals with individuals "pretty soon there would be no unions—that's what you right-to-work people want, no unions."

UAW's mop-up drive

In farm equipment industry, the auto union makes 'pattern' settlement with Harvester. But it strikes Caterpillar for its refusal to accept similar terms

The United Auto Workers this week struck the Caterpillar Tractor Co. and warned of walkouts against Allis-Chalmers Mfg. Co. in a mop-up campaign for "pattern" settlements throughout the farm equipment industry.

Meanwhile, in Detroit, UAW and the Chrysler Corp. moved toward a showdown late this week. The union made clear that it wanted to avoid a walkout because of Chrysler's internal problems. Nevertheless, UAW set a strike deadline for midnight Thursday.

Both sides expressed a cautious hope at midweek that a stoppage could be averted. They said some "real progress" had been made, although "complex and difficult issues" still remained then.

Farm equipment pacts. UAW and Deere & Co. broke the contract ice in the farm equipment industry with a settlement that closely followed the terms spreading through the auto industry: 2½% raises (with a minimum 6¢ an hour) each year of a three-year contract and improvements in insurance, pensions, supplementary unemployment benefits, and other fringes.

The International Harvester Co. bargained hard, arguing it couldn't afford the higher costs in Deere and auto pacts. But it settled with UAW—for the first time in 15 years without a strike—on "pattern" terms covering 35,000 employees in 45 bargaining units.

Others balk. UAW asked Caterpillar and Allis-Chalmers to sign similar contracts. Both said they couldn't afford the higher costs.

Caterpillar placed an offer on the table; UAW rejected it as "far short of the pattern." The union also objected to the company's plant-by-plant pension and SUB funds as "inadequate and weak" and asked for funding on a companywide basis.

Negotiations went down to the wire. When the deadlock remained unbroken at the deadline last weekend, UAW's locals in the company's plants struck—idling 18,000.

Allis-Chalmers asked the UAW to extend its contract covering some 15,000 employees for one year, with no increase in wages, to help the company weather present financial difficulties. UAW rejected this and, for the record, called on Allis-Chalmers to meet the terms in industry contracts already signed.

Concessions? Nevertheless, there were indications in the continuing negotiations of a possible willingness in UAW to give some concessions on a hardship basis.

The union's attitude toward the farm equipment manufacturer was much the same as its attitude the first of this week toward Chrysler: It acknowledged that management had serious problems and needed time to work out solutions—and that a strike could be critical. But it said that its members could not "be made to suffer for past management mistakes—they can't be asked to carry the costs."

Negotiations continued at midweek. **End**

In labor

BW

Meany is "amused" by libel suit filed against him by Hoffa

James R. Hoffa and the International Brotherhood of Teamsters have filed a $1-million libel and slander suit against AFL-CIO Pres. George Meany and 24 other top officers of the federation. **The action alleges a plot to "stigmatize" Hoffa and IBT and steal members.**

In Washington, Meany described the suit as "very amusing." Others named said they welcomed a court showdown with Hoffa on corruption and other charges.

The IBT suit in federal court in Detroit alleged that Meany charges aimed at Hoffa and IBT during the recent AFL-CIO executive council meetings were part of "a vicious, calculated, and calloused attack."

The suit denied—as a "fraud" and a "plot"—Meany's statement that AFL-CIO has had charter applications from about 100 IBT locals [BW Oct.21'61,p74].

U. S. drops Landrum-Griffin charges against NMU's 1960 election

The government has dropped charges that the National Maritime Union violated the Landrum-Griffin labor reform law in its election of officers in 1960. In a stipulation signed by the Justice and Labor Depts. and NMU, **the union agreed to change the form of future ballots to prevent a possible identification of voters.**

The government then stated that "the union and its executive officers acted at all times during the 1960 election in good faith and [the] election was not fraudulently conducted." The case was closed.

Joseph E. Curran, NMU president, called the decision a complete vindication of the union.

James P. Mitchell, former Secretary of Labor, filed the charges. Mitchell and his successor, Arthur J. Goldberg, participated in discussions preceding settlement of the case, union spokesmen said.

Telegraphers win lifetime job security in contract with Southern Pacific

Lifetime pay—with or without a job—is the new contract guarantee negotiated this week between the Southern Pacific Co. and the Order of Railroad Telegraphers. The job security provision, which **goes beyond any previous job saving clauses in the rail industry,** provides assurances that the road's 946 telegraphic employees will either permanently retain their jobs or be paid in full until death or retirement.

The agreement, termed a "landmark" pact by Labor Secy. Arthur J. Goldberg and National Mediation Board Chmn. Francis A. O'Neill, Jr., who helped arrange the settlement, was designed to prevent further loss of jobs among telegraphers. During the three years of negotiations on the job security issue with SP, Pres. George E. Leighty of the telegraphers union estimated 300 jobs had been lost to automation. **He cited the new pact as a "target" for all rail unions seeking to prevent job losses from automation.**

Under the contract terms, the ceiling on job terminations is set at 20 a year, to be handled as much as possible through normal attrition among employees. **Where a job is abolished before the worker is due to retire, he will continue to receive full pay even if another job is not located for him.**

Air Line Pilots' head, under fire, announces he will quit

Clarence Sayen, president of the Air Line Pilots Assn., took fellow union officers by surprise this week when he announced his intention to resign within a year. Sayen, under fire within ALPA on union bargaining and strike policies [BW Oct.28'61,p78], said he was quitting for "personal reasons" and that **it would mean no change in ALPA programs.**

Sayen's press conference announcement in Washington was interrupted by the appearance of three members of an ALPA eight-man executive committee who said they were startled at the news. They indicated that they might press for a quicker determination of Sayen's future.

Employment rise in October cuts number of labor surplus areas

Employment gains during October reduced the number of major labor market areas with substantial unemployment (6% to 8.9%) from September's 72 of 150 surveyed to 68, according to the Bureau of Employment Security. **The 68 figure compares with an all-time high of 101 in March and April of this year.**

Baltimore, St. Louis, Seattle, and Flint, Mich., dropped from substantial to moderate unemployment (3% to 5.9%).

The federal agency also reported that 206 small labor market areas and 273 "very small" areas also have 6% to 8.9% unemployment.

Drivers' strike keeps city on nonmilk diet

A drivers' strike that cut off milk supplies to New York City and Long Island Oct. 24 continued deadlocked at midweek, with **the stumbling block a demand by Teamsters locals for time clocks in trucks to record the drivers' overtime.**

Distributors and dealers objected on the ground that the clocks might put a premium on going slow in completing a normal route.

Federal, state, and city mediators participated in negotiations.

Personal business BW

November 4, 1961

Profit-sharing as a way to save taxes

Have you fully investigated the purely personal tax-saving opportunities that sweeten company profit-sharing plans?

Owner-managers of family businesses, especially, often find that profit sharing holds out surprising advantages. **They can salt away sizable sums for their retirement years, and later draw on these expanded funds—all at quite a low tax cost.**

Of course, company pension plans offer businessmen similar benefits, under the same liberal section of the federal tax law. But profit sharing, in the headlines today, has grown faster in recent years because of its greater scope and flexibility.

The Council of Profit Sharing Industries (Chicago) reports that such plans—Treasury approved—have tripled in number since 1955.

Treasury-approved is a key phrase. **Your plan must be "qualified" by the government—as either a pension or profit-sharing type—for the tax breaks to flow freely.**

Generally, the mechanics work this way:

Spelling out the advantages

Under a pension plan, the company contributes a definite amount each year to a pension trust, regardless of profits; sometimes, of course, participating employees contribute, too. The company (in a qualified plan) is limited to 5% of the payroll of those covered. **Retirement benefits vary—** the executive may receive a pension ranging from 10% to as high as 50% of his final salary.

Under a profit-sharing plan, the company's annual contribution is not a fixed sum, but rather a specified percentage of net profits, generally 5% to 20%. This contribution (under a qualified plan) may be as high as 15% of the payroll of those covered.

To be Treasury-qualified, either type plan must be (1) **"permanent"**—not subject to termination for any cause other than business necessity; (2) **"non-discriminatory"**—though it can be limited to stated classes of employees, such as those with a specified seniority, it may not arbitrarily favor certain individuals; and (3) **"non-refundable"**—the company can't get back any money paid in.

Generally, businessmen have found the advantages more than outweigh these requirements.

Benefits are long-range

Here's what you get in tax benefits, as a high-bracket man—whether you're an executive in a large concern, or owner-manager of a family corporation working as an "employee" of the company.

- **You pay no current income tax on the money the company contributes** from year to year to the pension or profit-sharing trust for your benefit. You are taxed only when the benefits are actually received.
- **You are taxed at the low capital gains rate if the total benefits are paid to you within a year of your retirement.** This means the rate will not be over 25%, and will be less if your tax bracket is under 50% ($32,000 on a joint return). Advisers regard this as one of the biggest breaks found anywhere in the tax law.
- **If your retirement payments are spread out over the period of your life**

Personal business Continued

expectancy, then you are taxed at ordinary income rates (except that, of course, you're not taxed on the part of your retirement payments that constitutes a return of the contributions you made yourself—that part was taxed at the time you earned it). Here, although you are taxed at the higher rate, your over-all saving is usually great—you have pushed high-bracket income earned before retirement (the company's contribution) into low-bracket retirement years.

Fund accumulates tax-free

A final major point is that a qualified pension or profit-sharing trust itself is tax exempt. It's not taxed on any income it earns from investment of contributed funds. **Result is a rapid tax-free buildup of the fund.**

Here is a simplified example, under a qualified plan:

Say a high-bracket executive's total income is $52,000. If he gets a $5,000 salary increase, he keeps just $1,900 of it. If he invests the $1,900 at 4%, at the end of 10 years, he has $2,800. **But if the company puts $5,000 into a profit-sharing plan for his account, and invests it at 4%, it will have grown to $7,400 at the end of 10 years.**

If the executive takes a lump-sum payment on retirement he keeps $5,550 —instead of $2,800.

Winter sport: the home workshop

A new size range in compact power tools, combining the heavier features of conventional home equipment with the lightness of portables, has been introduced by Rockwell Mfg. Co. **The "Compactool" line—circular saw, drill press, jointer—can fit comfortably together on a small bench.**

Units weigh 30 to 35 lb. each (compared with 80 lb. to as high as 400 lb. for conventional tools), and have individual built-in motors. Furniture and other light work is probably your best bet with this new size, despite the claim that major construction can be handled; price is $80 a unit.

If you want to do some reading up on furniture work, incidentally, two new books are highly recommended by experienced home workshop men: **Furniture Making and Cabinet Work,** by B. W. Pelton (Van Nostrand, $7.95), is a complete manual covering materials and techniques; and **Furniture Finishing at Home,** by N. G. Joyner (Chilton, $2.95), tells you how to rework antiques effectively—without risk of damage.

Executive chef

Coming of cold weather suggests this good but simple **recipe for roasted oysters, from old original Bookbinder's (Walnut Street), in Philadelphia:** Scrub with brush, rinsing in cold water, then roast in baking pan with deep side of shells down. Use hot 450F oven for about 15 minutes, or until shells start to open. Serve in shell with melted butter, lemon.

And for seasonal mixology, **try a drink called the Irish Rose:** Pour 1½ oz. of cranberry juice and stiff jigger of Irish whiskey over ice, in an old-fashioned glass.

Garden dept.

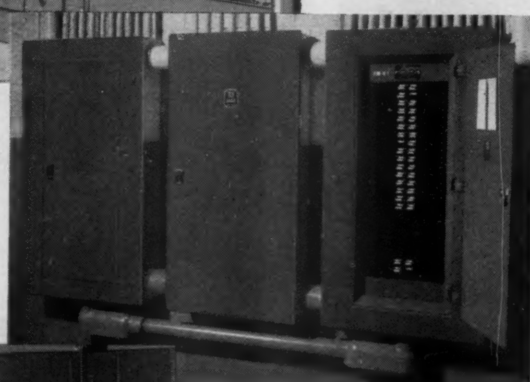
For fall planting, latest prizewinner tulips available are of a new class of Darwin hybrid bulbs, imported from Holland. This is the first new "official" classification recognized by Netherlands' growers in 30 years. Best of these are **Holland's Glory** (soft orange red), **General Eisenhower** (bright red), and **Godoshnik** (creamy peach, red flecked). The Godoshnik was a top winner at the 1961 experts' poll at Holland's Keukenhof Gardens.

electricity is distributed and controlled

Square D equipment is on duty throughout the 80,000 square foot building.

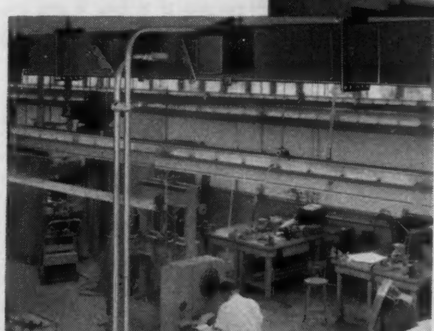
(at left)

Square D Field Engineer Hal Prescott and Milliken's Assistant Chief Engineer Wallace Storey inspect a reduced voltage starter and a motor starter switchboard. A total of five switchboards and four wall-mounted motor starter panels serve the facility.



(at right)

36 Square D circuit breaker lighting and distribution panelboards like these are strategically located throughout the building.



(at left)

390 feet of Square D Plug-In Duct serves the machine shop and machinery test laboratories. 50 plug-in units were installed initially—more added later. In this room, Milliken engineers constructed the prototype of the first successful mechanized doffing system, simplifying an important spinning task that had defied all attempts at mechanization for more than a hundred and fifty years. Here, too, were constructed the latest models of equipment which edge-crimp filament nylon, providing non-torque stretch or bulk characteristics.

EXECUTIVE OFFICES • PARK RIDGE, ILLINOIS

GROWTH RECORD REFLECTS STRONG MARKETING STAFF

Between 1950 and 1960, Square D Company's financial performance improved 100%. Last year's sales, net income, per-share earnings, cash dividends and net worth were all approximately double the comparable figures for 1950.

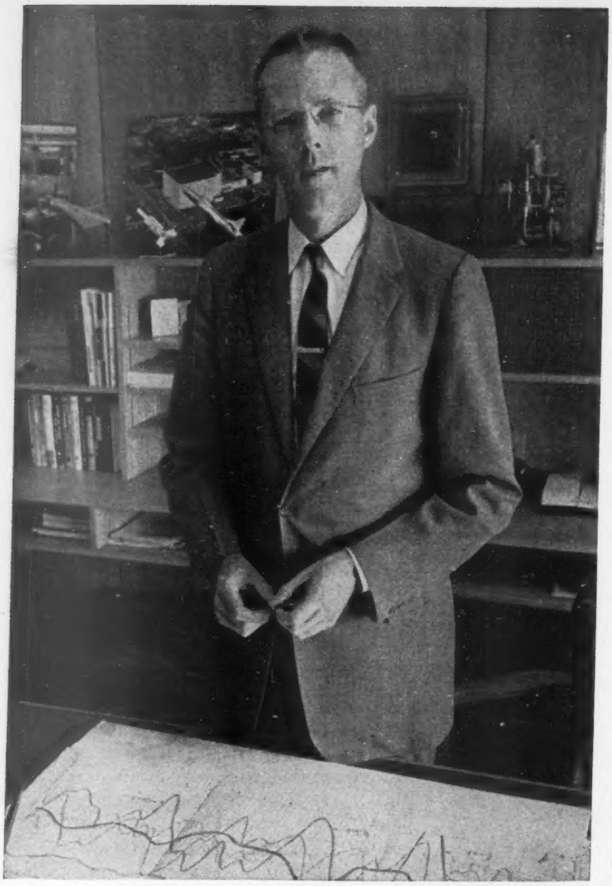
During this growth period the company's profit margin has remained among the highest in its industry, and about twice the average for electrical equipment manufacturers. Its return on sales has exceeded 9 per cent in all but three years since 1950, ranging up to 11.4 per cent net, after taxes.

Contributing to Square D's performance are such factors as alertness in product development, and a consistent expansion of plant facilities. But perhaps the largest share of the credit should go to Square D's people, who display a rare combination of youthful vigor and seasoned experience.

24 Years Average Service

Good examples of this combination are the twenty top marketing executives—regional managers, sales managers of the manufacturing divisions, and the headquarters staff. They average nearly 24 years of service with the company although their average age is under 50. Most of them joined Square D in their early twenties and advanced under its traditional policy of promotion from within. About 25 per cent of the total salaried employees are graduate engineers, including over 300 field engineers in more than 100 sales offices in the U.S. and abroad.

The success of any manufacturer lies in three basic ingredients—plants, products and people. Square D is well endowed in all three, with special emphasis on its people—8,000 strong.



Prof. Jay Forrester of M.I.T. (left) thinks his theory of "industrial dynamics"—a combination of systems engineering and mathematics—can cure many management headaches. Unlike other highbrow theories, his claims to treat a company realistically—as a complex organism with hundreds of tiny, potential trouble areas.

Sprague Electric has tried Forrester's technique, found it costly but useful (diagrams, right).

When orders at Sprague suddenly increased, there were bad delays in deliveries. The company thought the trouble was in inventories. But Forrester found the trouble lay in Sprague's employment pattern.

By adjusting "rates of flow," he helped Sprague to reduce fluctuations in employment and inventory and to stabilize over-all company operations.

MANAGEMENT

New way to spot company troubles

Sprague Electric Co., baffled by a problem other methods failed to solve, turned to new technique of "industrial dynamics"—and thinks it has found way out

About three years ago, Robert C. Sprague, founder and chairman of the board of Sprague Electric Co., an electronic parts manufacturer of North Adams, Mass., heard about some new ideas for management developed by Jay W. Forrester, professor of industrial management at MIT. Sprague is a member of the corporation at MIT.

The Sprague company was then bedeviled by a problem that seemed to defy solution either by conventional management methods or by the mathematical techniques Sprague had tried. It was a combined production and inventory control problem: Customers were demanding a 10-day delivery on a product that took two weeks to build, and the company couldn't afford to stock an inventory big enough to fill every order.

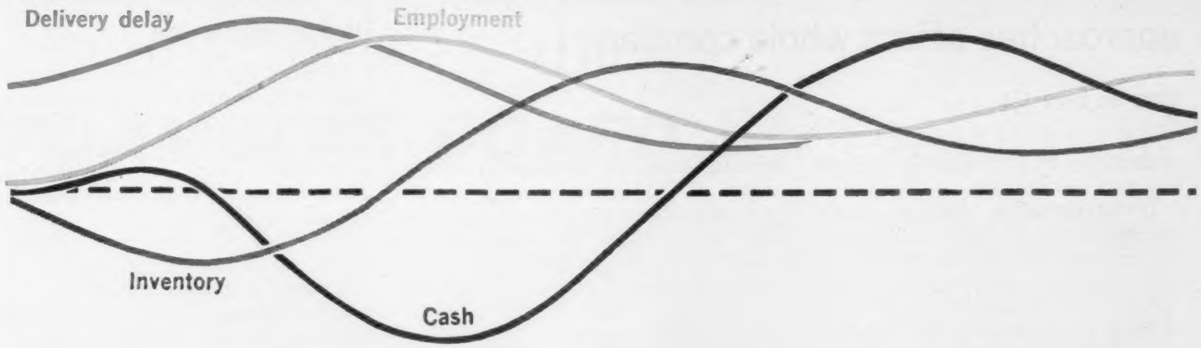
Sprague was impressed by Forrester's ideas, and the management technique that Forrester calls industrial dynamics. It's based on analysis of the flow through all company departments of six major "ingredients"—orders, materials, manpower, capital equipment, money, and information (charts).

The result is that two months ago, the company started putting into effect a Forrester proposal that it thinks is the answer to its vexing problem. The solution is based on Forrester's somewhat startling conclusion that the crux of the company's trouble was neither in production nor in inventory control, but in employment policy, in the drastic fluctuations in hirings and layoffs.

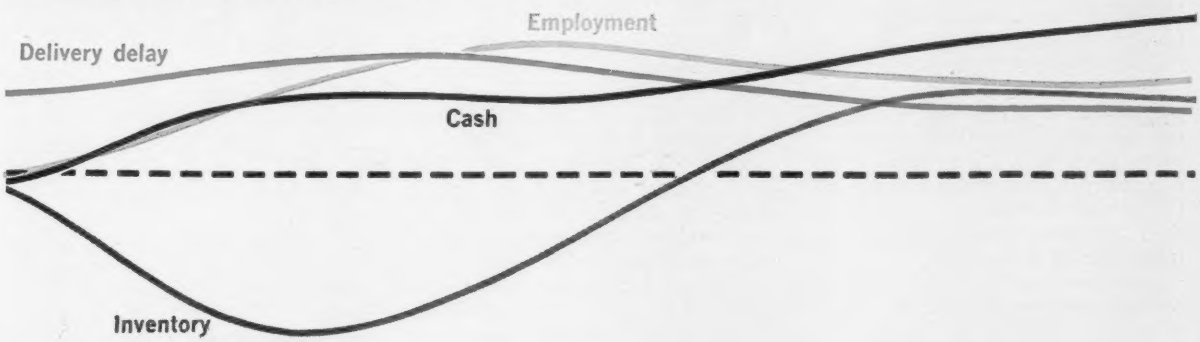
This week, the MIT Press and John Wiley & Sons, Inc., published a book by Forrester, Industrial Dynamics, describing in detail his method—the method that led Sprague to its hoped-for solution.

Pioneer. In the three-year interval, the Sprague company has spent over $100,000 in applying Forrester's technique of industrial dynamics to its case. Sprague's experiment is the

Flow diagram of Sprague Electric's operations showed sharp swings up and down . . .



New management technique smoothed operations, especially deliveries to customers.



first industrial application of the technique—but other companies, such as Eastman Kodak Co. and Minute Maid Corp., have been looking into it.

"Millions are being spent for electronics research and practically nothing for management research," says Chmn. Sprague. "We feel there is a need for both. That's why we have spent $100,000 on Forrester's industrial dynamics."

Forrester was asked originally to devise an inventory control system that would shave delivery time but still keep the investment in inventory within bounds. Application of his technique pointed the finger instead at reliance on seat-of-the-pants reasoning in employment.

So, last week, the plant superintendent was using a complex mathematical equation to determine how many workers were needed for the component production line.

"With Forrester's approach, we are getting a more objective view of our employment needs," says Bruce R. Carlson, vice-president for corporate planning and systems. "Weekly variations in orders sometimes misguided our line people."

He points out, however, that industrial dynamics "does not tell you what the people should be doing, only how many to employ." The plant superintendent still has to decide where the workers fit.

I. Engineered management

Industrial dynamics gets its name because it is concerned with the characteristics of a company's operations that change with time—the dynamic variables. In the technique Forrester, himself a crackerjack electrical engineer, has borrowed a leaf from engineering.

For the first time he is applying to management problems the methods of systems engineering—what engineers use to examine a large complex process as a whole, instead of in parts.

An engineer uses systems engineering to design a control system to run a complex process such as refining oil or flying a missile. Forrester applies the same tools and techniques to design controls to run a corporation.

It's the technique of examining the process as a whole that led Forrester, at Sprague, to find a solution in employment policies for what appeared to be an inventory and production problem.

Realism. Of course, the use of mathematical models, such as Forrester builds in his systems engineering, is not new as a management tool. Operations research has used them for years. They are the heart of management games played on computers.

But Forrester's model claims several important advantages over other models.

Probably most important, his model claims to be realistic, and the data it produces have a close bearing on the actual corporate situation. In operations research, for example, the equations have to be simplified so that they can be handled practically by known methods of computation. Sometimes the simplification is so radical that it gets far away from the actual situation, and the solution may have only a 50-50 chance of being applicable to the company.

Forrester gets a closer realism by running his model through many hundreds of tries at varying conditions. This finally brings him enough close-to-the-mark information so that he can make realistic

It can show management how alternative approaches affect whole company . . .

Story on page 158

evaluations of just what is happening in the company.

Understandable. Another important difference to businessmen is in the form of Forrester's research. In other management science techniques, such as operations research or linear programming, the equations are usually full of complex calculus, with a lot of S-shaped integral signs.

Forrester's equations, on the other hand, are written as collections of "words" that consist of the initial letters of the words making up a phrase—as NATO stands for North Atlantic Treaty Organization.

For example, SOF stands for shipping orders at the factory, and RFIF means requisitions filled from inventory. These are combinations any businessman can understand; and Forrester can take an equation to the production shop foreman and make himself understood.

The drawback is that Forrester's mathematical model has an almost insatiable appetite for these equations. Although Sprague's pioneering application deals with only three of Forrester's six flows—information, orders, and manpower—its model has over 200 equations.

II. Steps to a goal

In applying Forrester's industrial dynamics to any company, there are four keystone steps:

- First, Forrester looks at the entire company as an entity, instead of a collection of separate functions such as marketing, production, engineering, finance. He studies how customers are related to the company, how the labor pool is related. Then he makes what engineers call a "block diagram" of the company, including each important part of the organization—inventory control, finance, production, and so on.
- Next, he connects each element of the organization by the six flows—orders, materials, manpower, capital equipment, money, information—on which, he has concluded, a company's growth and decline depend. These flow diagrams tell an executive just how various departments intertwine, how an action making a change, say, in purchasing policy, can have a drastic effect in a department that's apparently not interested—say, in production scheduling.
- Then Forrester inserts time delays in the flow diagrams at the point where they actually take place—for example, the time required for a customer's order to arrive at the plant, or the time it takes a clerk to schedule a production order. This permits Forrester to deduce a lot of qualitative information about the company—where bottlenecks may develop, possibly the general trend a new policy might create.
- Finally, to get quantitative data, Forrester builds his mathematical model. He does this by determining two essential things about every flow at every key point in each flow diagram. These two essentials are the level at any point, and the rate of change in the level.

A level is a quantity such as the number of completed units in the warehouse or the number of unfilled orders in the office. This would not change if the company were to go out of business the next day. Rates, on the other hand—such as the number of orders received per week—would disappear if the company ceased operations.

Root of the matter. Forrester says this method is designed to produce company stability for the long run, and to get at the real rather than the apparent root of trouble. That's why, as at Sprague, it frequently suggests a course of action quite opposite to what an executive might do instinctively.

An executive, for example, might turn to a policy with only a short-run impact. Forrester found in one study that a short-run advertising campaign speeded up orders that would have come along eventually anyhow, but let orders slide lower later because it didn't create new demand.

Or, because the interaction of departments is so complex in its effects, this might obscure the real root of the trouble. The executive would then be likely to make decisions aimed at numbing a symptom rather than curing the real trouble.

The flow diagrams and mathematical model of industrial dynamics, Forrester claims, uncover the real root of the trouble, so management can find the right policies to correct the difficulty. This is what happened at Sprague Electric, he says.

III. Sprague's view

Because Sprague is the first company to apply industrial dynamics to the solution of an actual problem, it has accumulated the only practical information about how the theories and methods of industrial dynamics actually work out.

Vice-Pres. Carlson, who is supervising Sprague's experiment with the new technique, finds in it a number of gains, and considerable promise. He says, however, that it is taking almost twice as long, and costing almost twice as much, to carry out Forrester's ideas as the company originally expected.

Main causes of delay are the little things that don't show up in the theory—such as the time it takes to set up new files to produce the information needed, or to train a few key clerks and executives.

"Our biggest gain from industrial dynamics," says Carlson, "is that it can give senior management an indication of the implications of possible alternative approaches, and the effect of each on the whole company—for example, what product lines to push."

Interim report. With the system just getting into full operation, it's too soon for Sprague to know for sure how well industrial dynamics works. Carlson feels that in the months it has been in partial operation it has already stabilized employment levels.

Hopefully, the company will eventually reach three objectives:

- Speed up the rate of delivery orders through the plant.
- Adjust the inventory so it satisfies long-term needs and absorbs short-term fluctuations.
- Stabilize labor productivity with uniform loading.

The experiment has run into some tough questions about procedure. The model has a number of averagings built into it to smooth out short-term fluctuations. When the company received an especially big order in October, the model increased the size of the labor force only slightly. Sprague executives feared that with this slight increase they could never deliver the order in time. So they ignored the model.

This doesn't bother Forrester, even though he feels the model would have handled the emergency. He says management is right to go slow on industrial dynamics until it proves out.

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moment, Sprague management looks ahead to further use of the method. "We think industrial dynamics is likely to be even more impressive in advertising and marketing applications than in production," says Carlson.

IV. Long range

Forrester is philosophical about Sprague's qualms because he doesn't expect to win management to the technique overnight. He believes it will take at least 30 years for his approach to win acceptance. That's because it's so complex, and because it requires highly trained practitioners. An industrial dynamics apprentice, he says, really needs a master's degree in electrical engineering, and management experience.

Once a company decides industrial dynamics is for it, Forrester thinks it will take at least three years for the company to get rolling.

Impact on management. Forrester sees the top manager of the future as a well-trained professional with a doctoral degree in management—as familiar with servomechanism theory, simulation, and electronic data processing as he is with the balance sheet and the board of directors.

But Forrester has some gloomy words for middle management. He sees industrial dynamics thinning out its ranks, and much of middle-level decision-making done automatically by computers. When executives bristle, he points out that military officers bristled similarly when automatic decision-making was suggested for the air defense system. Today, he says, these same officers tell you no human being could make certain decisions so fast or so well as electronic computers.

When Forrester was head of the Digital Computer Div. of MIT's Lincoln Laboratory, he guided operational planning and technical design of the Air Force's SAGE computer control system for air defense. The military were then applying the new technique of systems engineering, and it was then that Forrester conceived the idea of applying the same approach to management.

He is confident that his method can not only solve specific problems, but can turn out generalized information fitting a wide variety of companies and industries. What excites him most about it is what he sees as its potential for helping executives understand and plan growth—the growth of anything from new products to entire companies, or even new countries. **End**

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This new Chevrolet gives you the man-sized, down-to-business roominess you want in a fleet car. In fact, Chevrolet went to the extent of using lifelike models to make certain all its '62 models have space to spare, wherever it counts, for relaxing comfort. That goes for head room, leg room, foot room—the works. Those big wide-opening doors are another Body by Fisher advantage for busy fleet schedules. And what Chevrolet does for people, it does for luggage. Nobody else in Chevrolet's field gives you a trunk like this one, with bumper-level loading plus a deep-well floor that lets you take aboard odd-shaped objects other cars just can't accommodate. Add to this all the traditional Body by Fisher advantages—its rugged durability, handsome hardy interiors, through and through insulation against road noise and weather—and you have some of the best reasons why Chevrolet keeps its value longer to bring top trade-in year after year. . . . Chevrolet Division of General Motors, Detroit 2, Mich.

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In management

BW

International Minerals gives $7,000 pay raise to outside directors for increased duties

Outside directors of International Minerals & Chemical Corp. will draw a $10,000 annual salary from now on. The figure may seem somewhat high; but Pres. Thomas Ware, the only company officer on the 11-man board, believes it is a "fair figure in relation to the amount of work our directors do, and the amount of company risk they handle."

Outside directors of IM&C, paid $3,000 a year since 1951, now command an annual stipend among the highest in the country for corporate board members. Their pay raise received much comment and some serious criticism from stockholders at the annual meeting Oct. 24 in New York. But only 133,000 of some 2-million shares voted were against the proposal and the deferred compensation plan that went along with it—permitting a director to defer all or part of his salary until he ceases to be a board member or retires from his "principal occupation." Under the deferred compensation plan, the company has the option of paying the director in common stock shares plus accumulated dividends or in the cash equivalent.

Ware points to a company study showing a trend toward annual retainers and higher pay for outside directors in all companies. In the case of International Minerals, he says, there has been a feeling that the company, as it grew, had been demanding more work from its directors than it had been paying for.

Special task groups and subcommittees of the board have meant "increased amounts of homework" for outside directors, adds another IM&C officer, and they "have been taking on the role of consultants to the company instead of the more traditional role of sitters, listeners, and deciders."

GE shelves glamor course for top brass, but other programs hold classes as usual

General Electric Co.'s Management Research & Development Institute at Crotonville, N. Y., is still very much the center of GE's educational and training programs, despite a recent rumor that the $2.25-million campus had been closed down as an economy move.

Actually, the company has suspended only its Advanced Management Course at Crotonville, as was predicted last spring [BW Mar.4'61,p50]. It will continue to operate the rest of its educational and training facilities at the Institute. These run the gamut of management seminars and conferences, on-the-spot courses like that in Advanced Marketing, and the designing and packaging of decentralized management courses.

The "glamor course" for top management ran out of qualified candidates and has been put into mothballs pending a study of where the company wants to go with the program. Earlier plans called for only a five-month break in continuity of AMC classes, but now the company expects the course will be inactive for well over a year.

Now under consideration are a follow-up course for some 1,500 AMC graduates, plus resumption of regular AMC classes on a part-year basis to serve qualified newcomers to GE management.

New consulting firm specializes in helping companies survive atomic attack

With mounting concern over the possibility of a nuclear attack, the time is evidently ripe for a new specialty in management consulting—planning to insure industrial survival in the event of atomic war.

One of the first companies to enter the new area is Business Survival Planning, Inc., formed two weeks ago in Washington, D. C.; it will specialize in helping management develop a defense against nuclear attack and, in the process, against other types of possible industrial disasters.

BSP's president is Lewis E. Berry, who resigned Oct. 20 as assistant director of plans and operations for the Office of Civil & Defense Mobilization. Berry is also one of the three owners of the new company, along with BSP Chmn. Fred Rudge, president of the consulting firm of Fred Rudge Associates; and BSP Vice-Pres. of Operations James F. Gardner, a former associate of Rudge.

Gardner expects five government defense experts to join BSP by Jan. 1. **Eventually, the staff may include 15 specialists—10 defense experts out of Washington and five experts in various areas of management,** including computer systems. BSP "will not make studies and deliver plans to a client," says Gardner. "Basically, we will assist companies to select, develop, and test industrial defense plans."

Management briefs

Gen. E. W. Rawlings (Ret., U.S.A.F.) will take over the presidency of General Mills, Inc., on Dec. 1, when C. H. Bell moves from president to chairman and Gerald S. Kennedy from chairman to chairman of the executive committee. Rawlings has been a General Mills executive since 1959 and Bell, son of company founder James F. Bell, has been president since 1952.

Owens-Illinois Glass Co. has elected Raymon H. Mulford president and advanced former president C. R. Megowen to vice-chairman of the board and chairman of the executive committee.

Shifts in Colorado Fuel & Iron Corp.'s top management put former Exec. Vice.-Pres. Leonard C. Rose into the presidency, former Pres. Alwin F. Franz into the chairmanship of the board, and former Chmn. Charles Allen, Jr., into the chairmanship of the executive committee.

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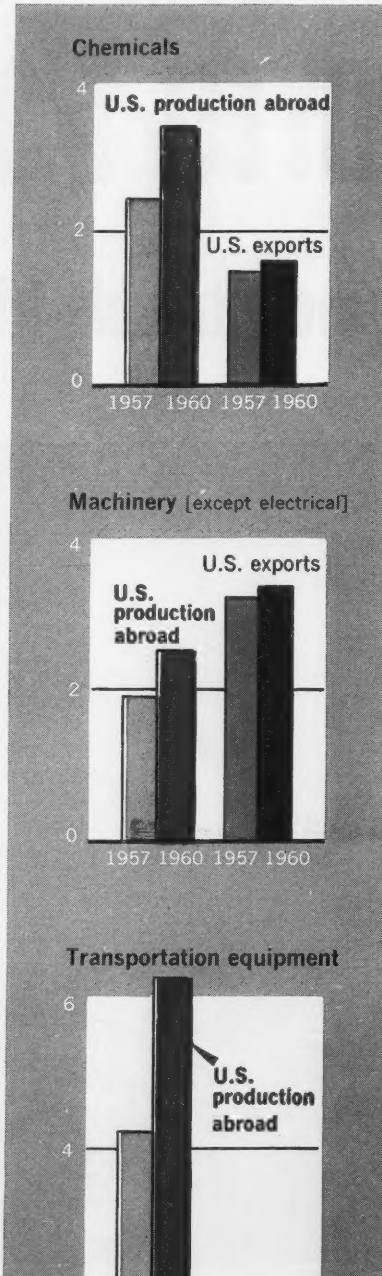
INDUSTRIAL PRODUCTS

CHARTS OF THE WEEK

Squeeze on U.S. exports

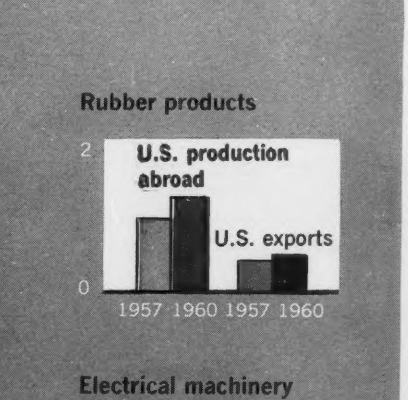


During the past few years, U. S. companies have virtually stampeded to set up their own plants abroad. But the growth of such production has a kicker: its impact on U. S. exports.

Production in U. S.-owned facilities in other lands has been expanding a lot faster than U. S. exports. And in at least two commodities—electrical machinery and transportation equipment—"captive" foreign competition has actually reduced exports from domestic plants. In other commodities, it has merely stunted further growth.

Between 1957 and 1960, American-owned foreign manufactures of autos and equipment rose 46%, while exports declined 10½%. Electrical machinery exports, $810-million in 1957, dropped to $793-million last year—not only because of the expansion of U. S. companies abroad, but also because of strong competition from European manufacturers.

Only about $200-million of the $18.3-billion worth of goods produced in Europe by U. S. companies found its way into U. S. markets in 1957. And a recent survey indicated that the amount in 1960 was even smaller—undoubtedly because of the decline in foreign car imports.



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Getting the budget under control

With the deficit for fiscal 1962 now estimated at almost $7-billion, Pres. Kennedy's statement to his cabinet demanding a tightening up on government outlays and a phasing out of anti-recession spending measures may seem like locking the barn much too late. Washington has been continually making upward revisions in its estimate of the budget deficit, and the fact that the President himself now has to demand more effective control over spending underscores the fact that precious little economizing has been done to date.

But late though it is, the President's statement is still welcome. If it is now backed up by action, it should serve to convince skeptics, both here and abroad, that the Administration really is determined to achieve a balanced budget in fiscal 1963.

This pledge is necessary because the Administration's budgetary record so far is hardly reassuring. True, a good part of its increased spending has been designed to strengthen the nation's military power, which no citizen begrudges. But it has also increased non-defense programs at a rapid rate. In some cases, the contra-cyclical measures were automatic. In others, however, the Administration had discretion, and deliberately loosened the purse strings in its effort to stimulate the economy.

While Pres. Kennedy defended this record, his statement implicitly recognizes that the economy now is expanding, and that it should continue to grow. Moreover, it reflects an awareness of the growing doubts about the Administration's ability to keep spending from getting out of hand—doubts that could imperil the dollar.

The President apparently hopes to avoid the mistakes made in 1959, when the Eisenhower Administration's contra-cyclical spending measures continued after the need for them had passed. With the budget showing a record peacetime deficit, the entire burden of offsetting the inflationary pressure fell on the Federal Reserve. And the rigorous credit policy that the Fed felt it had to pursue was one of the things that stifled the growth of the economy.

Kennedy is hoping to achieve a greater measure of noninflationary growth by lessening the reliance on monetary policy through tighter control over spending. This, however, may require sterner measures than the Administration so far has admitted.

Plans for the 1963 budget do not call for a cutback in total spending. Defense outlays will push the 1963 total to a new peacetime peak. The Administration is hoping to achieve balance by increased revenues from a more prosperous economy.

This means that the Administration is planning for a bare balance at a time when on its own forecast business should be expanding strongly. It is leaving no margin for error, no leeway to accommodate additional military spending that the world situation may force upon us.

If these calculations prove wrong, then it would take more than just a hold-down to avoid running a deficit in fiscal 1963. To deliver on his pledge, the President would have to undertake a major effort to scale down non-military spending.

This is why Kennedy's public statement takes on special meaning. In putting a ceiling on the 1962 deficit and in pledging a balanced budget for 1963, he is showing a new determination. He must now demonstrate that his Administration will keep that promise even if that turns out to mean cutting back on some of the cherished programs on which it has embarked. This is the only way to maintain confidence in the dollar.

Stalin erased, but not his goals

Since the death of Stalin in 1953 and the subsequent relaxation of outright police rule in the Soviet Union, many people in the West have come to feel that the Soviet system, and even the Russian mind, could be comprehended in Western terms. In view of developments in the USSR over the past week, we wonder.

Who else but a Russian leader, in this case Nikita Khrushchev, could pick the same day first to contaminate the world's atmosphere by testing the biggest thermonuclear bomb ever and then to decontaminate the famous Red Square mausoleum by having Stalin's body removed from its place beside the sarcophagus of Lenin?

In the West, to be sure, nearly everyone except card-carrying Communists should be happy to have Khrushchev put a more or less Western evaluation on the Stalin era, with all its tyranny and its falsifications. We in the free world long have known that Stalin was a vicious tyrant. Perhaps it is progress to have the Russian people in on the fact.

But let nobody in the West be foolish enough to imagine that Khrushchev's final, almost ghoulish act of de-Stalinization marks any change in the basic Stalinist goal of world domination, or that it lessens in the slightest degree the increasing threat to mankind imposed by his grim determination to give the Soviet Union an overwhelming nuclear capability.

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